EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

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FRENCH TV
Where laws change as often as channels
Page 2

## World News

### US maintains distance from UK decision on sanctions

The US dissociated itself from a British claim that President George Bush supports the UK's intention to ease sanctions against South Africa, a decision the British cabinet is expected to approve today.

A senior Administration official stressed that the White House did not endorse the British intention to lift the voluntary ban on investment in South Africa, though the difference is over the immediate public response and not the intention behind it. Page 22

**$1.7bn aid proposal**
The EC should devote up to Ecu2.35bn ($2.9bn) out of its own budget to eastern Europe over the next three years, the European Commission proposed. Page 22

**EC-US defence links**
The EC should assume some responsibility for defence and sign a treaty with the US to cement transatlantic links, Lord Carrington, the former Nato secretary-general, said.

**Securitate 'arrested'**
Romania's new Defence Minister tried to reassure a sceptical population that the "vast majority" of Securitate officers had been arrested and that all telephone tapping had ended. Page 2

**Australian package**
Paul Keating, the Australian Federal Treasurer, unveiled a vote-seeking package of wage increases, tax cuts and other economic measures as the chief plank in the Labor Government's platform for re-election. Page 4

**Swiss call for fine**
The prosecutor in the trial of Elisabeth Kopp, former Swiss Justice Minister charged with violating the official secrets act, asked the court to impose a SFr8,000 ($5,400) fine but no jail sentence. Page 33

**Race hatred charge**
Moscow's city prosecutor is to launch proceedings against the extreme Russian nationalist group Pamyat for inciting racial hatred. Page 2

**UK-Hanoi failure**
Britain failed to persuade Vietnam to agree to more mandatory repatriation of boat people from Hong Kong. Page 4

**SA hit squad known**
A South African newspaper alleged that a secret army unit suspected of involvement in political assassinations was ultimately answerable to General Magnus Malan, the Defence Minister. Page 4

**French nuclear offer**
President François Mitterrand said France was ready to provide Pakistan with a nuclear power plant and settle a dispute over a previous nuclear deal. Page 4

**Rainbow peace bid**
Rainbow Warrior II is to visit Tahiti in May at the same time as President François Mitterrand as a gesture of reconciliation by Greenpeace towards France, whose agents sank the original anti-nuclear ship.

**Lee sues journals**
Singapore Prime Minister Lee Kuan Yew filed libel suits against Hong Kong based publications the Asian Wall Street Journal and the Far Eastern Economic Review.

**Dutch block border**
Angry Dutch farmers blockaded border crossings into Germany and brought traffic to a standstill in Rotterdam as they stepped up demonstrations for higher grain prices.

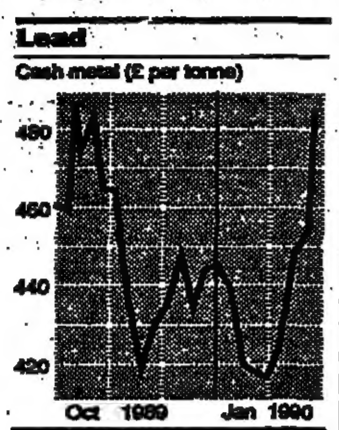
**UN Cambodia role**
Rival Cambodian leaders Hun Sen and Prince Norodom Sihanouk signed a new agreement stressing the need for a UN role in bringing peace to their country. Page 4

## Business Summary

### Continental to expand share in UK tyre market

Continental, West German tyre company, has agreed to pay Michelin, the French tyre group, DM400m ($242m) for National Tyre Service of the UK in an attempt to lift its low penetration of the UK market.

Continental, Europe's second-largest tyre producer after Michelin, said its average share of European markets outside Germany was about 17 per cent. But its share in Britain is minimal. Page 23




MARKETS: Lead prices on the London Metal Exchange were pushed to 4-month highs among continuing concern about supplies following a series of production setbacks. Page 42. South Africa's stock market was bolstered by news that Britain had decided to relax sanctions combined with a firmer gold price. Sanctions story, Page 22; Business implications, Page 8; Sanctions, Page 30; Markets, Back page, Section II.

NBC Television and Rupert Murdoch's News Corporation and two other major communications companies announced plan to invest $1bn for the 1993 launch of Sky Cable, the first high power Direct Broadcast Satellite service to span the US. Page 23

AVON Products, world's largest cosmetics manufacturer, is to sell its remaining stock in Avon-Japan for $335m in cash and $112m in royalties. Page 23

ROYAL Dutch/Shell, Anglo-Dutch oil group, reported a sharp jump in profits, confirming the trend of firm oil prices boosting the oil majors' results. Page 23; Lex, Page 22.

EUROPEAN industry ministers will today discuss whether to include a strong Buy-Europe clause in a directive designed to open up the public procurement market. Page 6

CEP Communication, French publishing group, forecasted profits of at least FFr330m ($56.2m) for 1989, up 30 per cent from the previous year. Page 24

EASTERN European countries should not delay the introduction of reforms of their financial sectors reported a study by US-based Institute of International Finance. Page 30

WHIRLPOOL, US domestic appliances manufacturer, said its European joint venture with Philips, Dutch electrical group, contributed to a 16 per cent increase in net earnings in 1989. Page 26

CHEVRON, fourth biggest US oil company, is to a reorganise its US domestic oil and gas exploration and production businesses. Page 26

NIPPON Life Insurance has become the third Japanese insurance company to acquire a 1 per cent stake in the Hongkong and Shanghai Banking Corporation. Page 28

KUWAITI Oil Minister, Sheikh Ali Khalifa al-Sabah, defended Kuwait's policy of ignoring the quota system agreed by Opec. Page 34

COURTAULDS, international textile and chemicals group, revealed details of the proposed demerger of its textile business. Page 23

# Havel urges Congress to support Soviet reforms

By Lionel Barber in Washington

PRESIDENT Vaclav Havel of Czechoslovakia captured the hearts, if not the minds, of the US Congress yesterday with an appeal to help the Soviet Union on its road to democracy.

Mr Havel, the playwright who became the reluctant President of Czechoslovakia, said Soviet reform was in the interests not only of Czechoslovakia but of the whole world. It was, he said, a world which one day might dispense with rival military blocs and allow the US to bring its troops back from Europe.

Throughout his speech, delivered in Czech through an English translator, Mr Havel employed an improbable mix of politics, history and moral philosophy to argue his case that reform in Europe was "irreversible" and that the US should support the process.

"To put it metaphorically: the millions you give to the east today will soon return to you in the form of billions in savings," he said.

His appeal for US aid to the Soviet Union may have charmed Congressmen, but is unlikely to convince them to put forward large-scale financial assistance to Moscow. So far, US aid has been confined to reforming countries in eastern Europe such as Hungary and Poland.

Mr Havel began his speech by reminding everyone that he was arrested last October, and yet six weeks later the Czech Parliament had elected him President: "We are living in extraordinary times."

He made it clear that Czechoslovakia's peaceful revolution had been made possible by the Soviet Union's own drive for reform. The US could help Czechoslovakia by helping the Soviet Union on its "irreversible, but immensely complicated road to democracy."

Mr Havel said he wanted to make "considerable cuts" in Czechoslovakia's armed forces which were now disproportionate to its needs.

On the issue of Soviet troops in Czechoslovakia, he said he wanted the majority out by next June's elections, but realised the withdrawal would take longer than the invasion of Warsaw Pact forces in 1968. He is due to meet Mr Gorbachev in Moscow on Monday for talks.

The speech to Congress, the first by a non-communist head of state from the emerging east European democracies to visit the US, evoked memories of the address by Mr Lech Walesa, the Solidarity leader, who enjoys similar moral authority in Poland.

This week, President Bush welcomed Mr Havel to the White House and pledged closer US trade ties. Mr Havel has made it clear, however, that he does not want direct economic aid, but intellectual capital: a commodity which, as he showed yesterday, he has in abundance.

Other east Europe news, Page 2

Vaclav Havel, flanked by Dan Quayle, vice president (left) and House speaker Thomas Foley, gives a victory salute before addressing a joint meeting of Congress in Washington yesterday

# De Mita's resignation creates deep division in ruling party

By Haig Simonian in Milan

THE RESIGNATION of Mr Ciriaco De Mita as president of Italy's Christian Democratic Party has created a potentially devastating split in the party which has dominated Italian politics since the end of the Second World War.

*The decision by the former* prime minister, announced late on Tuesday at the end of the party's two day conference, is the culmination of a growing series of rifts within the party.

It highlights growing dissatisfaction within the party's left wing, headed by Mr De Mita, with the course being pursued by Mr Giulio Andreotti, the Prime Minister, and Mr Arnaldo Forlani, the party secretary.

According to the left-wingers, *the Christian Democrats* under Mr Andreotti and Mr Forlani have become too closely aligned with Mr Bettino Craxi's Socialist Party in the country's current five-party coalition Government.

The left-wingers have already expressed their disquiet by going into "opposition," quitting all leadership posts within the party.

Mr De Mita justified his decision on the grounds that the left wing needed to "distinguish itself" within the party, *not least because of the* current leadership's insufficient appreciation of the need for unity.

Mr De Mita, lost his position as party leader to Mr Forlani a year ago, while prime minister. He failed to form a new coalition when his government collapsed in May.

A combative Mr Forlani, speaking yesterday afternoon, ruled out the possibility of freezing the vacated positions.

He said: "If these resignations are carried out during coming meetings, it will be necessary to accept our responsibilities and confront the situation, finding replacements for the posts which have become vacant."

The left-wing factions associated with Mr De Mita are thought to account for about a third of the party's ruling group. With local elections due on May 6, the latest split could badly damage Christian Democrat chances.

Moreover, it could lead to further, and potentially decisive, frictions in the already fraying Government, opening the prospect of a general election as early as June, rather than the spring of next year.

MODEST RETREAT BY US AND EUROPEAN EQUITIES DESPITE TOKYO'S BIGGEST FALL SINCE 1987

# World markets hold on to their nerves

By Simon Holberton in London and Michiyo Nakamoto in Tokyo

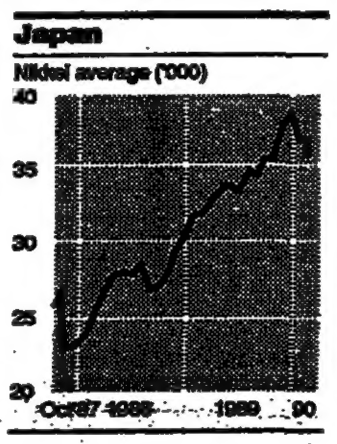
EQUITY MARKETS in Europe and North America held their nerve yesterday in the face of a substantial fall in prices on the Tokyo Stock Exchange.

Declines in prices in London, on continental European bourses and on Wall Street were modest compared with the 1,116.91 fall in the Nikkei stock average.

In London, the FT-SE 100 Share Index fell 17.3 to close at 2,259.7 in light turnover. In West Germany, the German Stock Index (DAX) fell 16.62 to end at 1807.19.

On Wall Street, which initially fell sharply, the Dow Jones Industrial Average was down just 6.31 at 2,590.54 by early afternoon. The market, however, remained unsettled not only by Tokyo's large fall but by US consumer price figures for January which indicated that inflation pressures have yet to abate.

The 3 per cent fall in share prices in Tokyo yesterday left the Nikkei *10 per cent below* its record of 38,915.87 set at the end of last year. It was the largest decline the Tokyo market has seen since October




1987.

A poor showing by Wall Street on Tuesday and concern about an imminent increase in the Bank of Japan's official discount rate left Japanese investment institutions with little reason to buy equities.

World financial markets *have been unsettled since the* beginning of the year by the threat of higher interest rates in response to a deteriorating outlook for inflation and uncertainty generated by developments in eastern Europe.

The strain has been felt mostly in government bond markets where prices have fallen and long-term interest rates risen.

Analysts said this has led to the traditional relationship between bond and equity yields becoming stretched in some markets, particularly those in Japan and West German. The only way for normality to be restored was for equity prices to fall thereby leading to a rise in equity yields or for bond prices to rise, they said.

Both occurred yesterday. Rallies in the West German, Japanese and UK government bond markets accompanied falls in equity prices.

Interest rates in Japan and West Germany are expected to rise. In the UK and the US no rise in official interest rates is expected but, in the UK especially, a poor outlook for inflation is expected to keep bond prices under pressure.

Lex, Page 22; International Bonds, Pages 29-30; World Stock Markets, Page 43

# US prices rise is highest in years

By Anthony Harris in Washington

US CONSUMER prices rose 1.1 per cent in January, the first rise of this level since June 1982.

While more than half the rise was explained by the December cold spell, and had already been signalled in the producer price index for the month, other prices rose more strongly than expected.

The US bonds market shrugged off the news having already braced for continued tight money after the appearance of Mr Alan Greenspan, chairman of the Federal Reserve, before Congress on Tuesday.

Mr Greenspan had warned of bad January figures, but made it clear that he expected it to be reversed in coming months.

Equities were weak, however, in response to the heavy overnight fall in Tokyo.

The January price rise brought the increase in consumer prices for the last 12 months to 5.2 per cent. This is also the annualised rate of *inflation for all items other* than food and energy over the last three months.

The main effects of the bitterly cold December weather were seen in the record 27.5 per cent rise in the price of fuel oil, and a 12.4 per cent rise – also a one-month record – for fresh fruit and vegetables.

However, both the oil and grocery trades appear to have taken the opportunity to rebuild tightened margins by raising prices where there can have been no strong impact from the weather: motor gasoline (up 6 per cent), cereals and baked goods (up 3.6 per cent).

There were also further *strong rises in the prices of* books and tobacco, where profits are under heavy pressure.

All these industries head the list for year-on-year as well as month-on-month prices increases, and recent trends and weather patterns suggest that fuels and fresh foods will remain a problem in the medium term.

Health care costs remain the other main factor tending to raise the inflation rate, with a rise through the year of 8.3 per cent, but they are no longer *the strongest single forces*, as in recent years.

International Bonds, Pages 29-30; World Stock Markets, Page 43

# UK interest rates to remain at present levels, warns Major

By Rachel Johnson and Philip Stephens in London

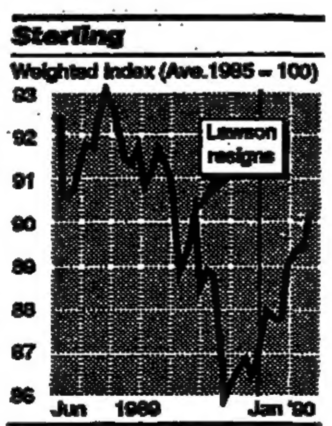
MR JOHN MAJOR, Britain's Chancellor of the Exchequer, will today foreshadow his first Budget next month with a warning to colleagues that inflation has proved more stubborn than expected and that interest rates will remain at present levels for the foreseeable future.

A further rise in UK mortgage rates announced yesterday by one of the main clearing banks – by 0.9 percentage points to 15.7 per cent – and by several building societies, provided a sombre backdrop to the traditional pre-Budget preview of the economic outlook by the full Cabinet.

Mr Major, however, received more welcome news from the foreign exchange markets where sterling rose to its highest level since the resignation of Mr Nigel Lawson as Chancellor in October.

Colleagues expect him to warn today that the recent rises in mortgage rates and the impact on prices of the poll tax, and higher water and electricity charges may force him *to raise his inflation forecast* for this year.

The Treasury predicted last




autumn that the annual rate of price rises would fall to 5½ per cent by the last quarter of this year but the expectation is that it may remain above 6 per cent.

Mr Major will not outline in any detail his Budget strategy but colleagues have already ruled out any prospect of tax cuts. Mr Kenneth Baker, the party chairman, can be expected to warn, however, that tax increases would dent further the already battered morale of Tory MPs.

On foreign exchange markets yesterday, sterling continued to appreciate steadily, strengthening the downward pressure on inflation provided by high interest rates.

The pound fell precipitously from 90.1 on its trade-weighted index late in October following Mr Lawson's resignation, and at one point late in December touched 85.8.

Since the start of the year, sterling has been appreciating steadily and closed yesterday at 90.2. The pound finished the day at DM2.855, against DM2.8525 on Tuesday.

The authorities' satisfaction with sterling's performance, however, appeared to be moderated by City of London economists' explanation for the pound's rise.

The Bank of England said sterling had profited from its "safe-haven" label amid the turmoil about currency unification in the Germanys. The liquidity of the UK government bond market, had, in addition, attracted investment in sterling and away from competi-

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**Lithuanian communists see salvation in nationalism**

Communism in Lithuania has made common cause with nationalism to ensure its political future. Party leader Algirdas Brazauskas (left) told Moscow: *"Only an independent party can enjoy people's trust."* Page 2



MARKETS

**STERLING**
New York lunchtime:
$1.714
London:
$1.715 (1.704)
DM2.855 (2.8525)
FFr9.695 (9.6925)
SFr2.5275 (same)
Y249.25 (247.75)
£ index 90.2 (90.0)

**GOLD**
New York: Comex Apr $422.9
London: $420.0 (419.75)

**N SEA OIL** (Argus)
Brent 15-day Apr $19.475 (19.625)

*Chief price changes yesterday: Page 23*

**DOLLAR**
New York lunchtime:
DM1.6693
FFr5.684
SFr1.477
Y145.25
London:
DM1.665 (1.6745)
FFr5.6525 (5.6875)
SFr1.4745 (1.484)
Y145.3 (145.35)
$ Index 66.6 (67.0)
Tokyo close: Y145.15

**US Lunchtime Rates**
Fed Funds 8$\frac{3}{16}$%
3-mo Treasury Bills: yield: 7.994%
Long Bond: 99$\frac{5}{32}$
yield: 8.655%

**STOCK INDICES**
FT-SE 100: 2,259.7 (-17.3)
FT Ordinary: 1,783.8 (-15.2)
FT-A All-Share: 1.127.78 (-0.8%)
New York lunchtime:
DJ Ind. Av. 2,590.63 (-16.22)
S&P Comp 326.70 (-1.26)
Tokyo: Nikkei 35,734.33 (-1,161.19)

**LONDON MONEY**
3-month interbank: closing 15$\frac{1}{8}$% (same)
Liffe long gilt future: Mar 85$\frac{7}{16}$ (84$\frac{21}{32}$)

## EUROPEAN NEWS

# Lithuania Communists see salvation in nationalism

### But the power struggle will not end with next Saturday's polls, writes John Lloyd

THE Communist Party of Lithuania, which has styled itself independent of the Soviet Party, the CPSU, may be its advance scout. The politics of this, the most radical of the Baltic republics, shows communism making common cause with resurgent nationalism to try to ensure its future as a political force.

Communism has thus wholly reversed its traditional position of hostility to "bourgeois nationalism" – a crime for which many Lithuanians died soon after the war.

Politics are indeed curious in the most north-westerly of the Soviet Union's 15 republics. The Communist Party split after a congress last December, in which it declared its independence from Moscow, into an independent-minded majority and a pro-CPSU minority; the establishment of parties has been legalised by the Communist-dominated supreme soviet and they are now forming; and Sajudis, the two-year-old independence mass movement, stands behind all, forcing the pace of independence.

All political forces except the pro-CPSU Communists want some version of national independence. The coming elections, on February 24, will therefore be dominated by a fundamental question: can a Communist Party so escape its past as to transform itself into a standard-bearer of bourgeois nationalism, and indeed capitalism? If it does, it will inevitably suggest a route for the embattled CPSU and its republican affiliates.

**Soviet elections**

When Mr Mikhail Gorbachev, the Soviet party leader and President, visited Lithuania in mid-January to try to make the Lithuanians change their minds, Mr Algirdas Brazauskas, the Lithuanian party leader, made it wholly plain in a speech attended by Mr Gorbachev what the party strategy was. "Only an independent party," he said, "can enjoy the trust of the people of Lithuania, and only on this basis would the party be able to remain in the political arena as a serious political force".

The Independent CP is fielding 400 candidates for the soviet's 141 seats, perhaps a quarter of whom might expect the backing of Sajudis. In recent weeks its leading members have been spirited, even shrill, in their determination to prove themselves nationalist – claiming an "economic blockade" by the Soviet Union, even warning of military intervention.

The fledgling parties, themselves operating beneath the Sajudis umbrella, are of course suspicious of this. To an extent, this view is based on their experiences under communism. Banned after the war, their activists and leaders shot, imprisoned or shipped off to Siberia (from which few returned), suppressed ever since, they have no reason for anything but suspicion.

Prof Kazimieras Antanavicius, the mild economist who leads the Social Democrats (originally founded in 1896) says: "We were underground for 40 years: no one dared bring out the literature, only a few old men who had survived Siberia remembered, and they did not talk."

Mr Egidijus Klumbus, leader of the Christian Democrats, almost as ancient, says simply that "the party lost its body and its head" after the war. They are now finding leaders again, though their bodies remain shrunken. The Social Democrats held a congress in December, and now claim 2,000 members; the Christian Democrats held one last month, and claim 1,500. The Democrats have perhaps as many; the Greens, with strict membership criteria, 150.

Only the Social Democrats will field a substantial number of candidates – 24. The others have found only, at most, half a dozen each. Prof Antanavicius reckons on a good return – perhaps 15-20 seats. But on any count, even the combined forces of the non-Communists will not be able to command a majority against the Communists. Yet, because many of the Communists will be Sajudis-approved, the movement is likely to win a majority of the seats, even though it will not stand under its own name. The dilemma in which this leaves the non-Communist parties is clear. While being part of the Sajudis movement under the Sajudis umbrella with the Communists, they will see the latter win.

Mr Zigmas Vaisula, a young physicist in the collective leadership of the Greens who is also one of the 36 USSR congress deputies from Sajudis and sits on the Sajudis Council ("I do not do much physics now") says: "The election campaign has started for the Communist Party. It is more difficult for us to get articles in the newspapers, more difficult to appear on TV."

Prof Antanavicius, however, has a plan. In the event of a Communist victory, he will propose, at the first meeting of the supreme soviet after February 24, that the Sajudis-sponsored candidates form a united bloc.

"It will then be necessary for the Communists to choose: become part of a new force, and leave, or stay with, the party. It will be the moment of truth."

The elections in Lithuania, therefore, have a particular importance. First, independent parties will stand under their own names. Second, the struggle for power will not cease after the elections. And third, if the Communist Party wins, it will be a beacon to the beleaguered parties across the Soviet Union: save yourselves – in a way none of the east European parties have been able to – by embracing everything you strove to stamp out for decades.

# Moscow to prosecute 'race hate' Pamyat

By Quentin Peel in Moscow

MOSCOW'S CITY prosecutor has decided to institute proceedings against the extreme Russian nationalist group Pamyat for inciting racial hatred, it was reported yesterday.

The move comes as rumours of impending pogroms against Jews, Armenians and other minorities have spread through the country in the highly charged atmosphere in the run-up to republic and city elections.

It is the first apparent move by the authorities to control the Pamyat movement, in spite of its hardline anti-Semitic propaganda. Democratic groups had accused the KGB, the state security committee, of deliberately turning a blind eye to its activities, while maintaining strict control of organisations campaigning for more radical reform and multi-party democracy.

The resurgence of aggressive Russian nationalism has yet to attract the sort of mass public demonstrations which have been taking place in support of radical reform in recent weeks, but many reformers still fear the latent power of such appeals at a time of social unrest and gathering economic depression.

The authorities have responded to the rumours of pogroms with attempts at public reassurance which seem more likely to give credence to them. Last week, the KGB issued a "denial" of the rumours, and yesterday a similar statement was issued by the Interior Ministry.

"The Soviet Interior Ministry announces that rumours of Jewish pogroms disseminated in the mass media have no grounds whatsoever," it said. "They mislead the public and can serve to promote ethnic strife and destabilisation in several regions of the country."

The authorities produced grim figures on the general rise in crime, suggesting that one in every three crimes in Moscow was committed by armed groups. A briefing by the Moscow police also warned of a growing drug trafficking movement with its own network of operatives, including security, and counter-intelligence.

# Cross-border shoppers 'cost Dublin I£40m'

By Tim Dickson in Brussels

SHOPPING sprees in Northern Ireland – involving on occasions busloads of bargain hunters from the Irish Republic prepared to endure an 800km round trip for their duty free allowances – cost the Dublin Exchequer an estimated I£40m (£37m) in 1986, it was claimed yesterday.

Damage to the Irish economy caused by these cross-border excursions was cited as a main part of the Irish Government's defence of its controversial "48 hour" rule at a preliminary hearing before the European Court of Justice in Luxembourg.

The rule was introduced in April 1987 to limit duty and tax free allowances to "genuine" travellers – that is to say those who have stayed more than 48 hours in another country and have evidence to prove it. It was subsequently challenged by the European Commission on the grounds that it is contrary to Community law.

The immediate issues centre on an EC directive of 1969 (subsequently amended) harmonising member states' exemptions from turnover tax and excise duty, or so called travellers' allowances.

But the case is bound to attract wider attention by focusing on the challenge of open borders for countries such as Ireland and Denmark which have relatively high rates of VAT but adjoin member states with much lower tax levels.

The Commission is supported by Britain in its claim that the Court should declare that Ireland has failed to fulfil its obligations under the Treaty of Rome. It says in its written submission that the directive makes no distinction between travellers and provides no limitation regarding length of stay outside the country.

As regards the economic difficulties, Brussels points out that "channels of trade", due to different VAT rates, exist between Luxembourg and other member states and, due to shop opening hours, between Germany and Belgium.

Illustrating the growing scale of the problem – and thus the need to take action – Ireland's representatives pointed out that in a single day in December 1986 some 18,500 persons passed through the customs post at Carrickarnan, whereas in the previous year on a comparable day in the same month it was only 10,500.

Altogether about 3.6m trips were made for Northern Ireland goods valued at an estimated I£300m.

# Brussels cracks whip over Bonn aid to industry

By Lucy Kellaway in Brussels

THE European Commission has told West Germany to adapt the new rules on state aid to the car industry, overruling German complaints that such rules smack of a suspicious industrial policy being applied by the Commission.

The two sides have been negotiating for a year over the framework rules on car subsidies, under which member states have to get commission approval for all aid of over Ecu12m (£8.6m).

All other member states have now accepted the rules, with Germany the only objector.

The Commission's decision reflects its general lack of tolerance for loose practices in the motor industry, and ensures that the German car industry, the most competitive in Europe, will be treated in the same way as the others.

West Germany has been told to start applying the rules in May. The Commission warned yesterday that any aid paid after that date without EC approval would be illegal, and might be recovered.

Bonn has been given two months to tell the Commission how it intends to put the rules into action.

The measure was adopted by Brussels at the end of 1988. Spain also objected at first but started to comply at the beginning of this year.

# Infighting set to grow in Turkish ruling party

By Jim Bodgener in Ankara

FACTIONAL infighting within the ruling Turkish Motherland Party (ANAP) is widely expected to intensify following the resignation of Mr Mesut Yilmaz, the Foreign Minister.

Mr Ali Bozer, Deputy Prime Minister and a lawyer with considerable European experience, was appointed to replace him yesterday.

Mr Yilmaz quit on Tuesday night saying conditions no longer permitted him to continue. It is believed that the catalyst for his departure was criticism of him within the party, which peaked during his absence earlier this month at the "Open Skies" conference in Ottawa.

He is seen as an increasingly popular rival of, and possible eventual replacement for, the Prime Minister and ANAP chairman, Mr Yildirim Akbulut. The resignation was Mr Yilmaz's way of distancing himself from an unpopular Government in preparation for a come-back at the 1991 party congress, according to Ankara diplomats.

He might even seek a rebel alliance with another discontented aspirant for the premiership, former education minister Mr Hasan Celal Guzel.

Mr Bozer, a lawyer with considerable European experience, was a natural choice to succeed Mr Yilmaz. Since 1987, he has also been the state minister responsible for promoting Turkey's full European Community membership application. Mr Akbulut was President Turgut Ozal's surprise and anodyne choice of placeman following the presidential elections last autumn, disappointing competing faction leaders including Mr Yilmaz as the favourite of the party's liberal wing.

● Turkish security forces yesterday killed seven alleged terrorists, thought to be from the Marxist Kurdish Workers Party (PKK), in a clash near the township of Kizilsu, near Sirnak, in the south-eastern province of Siirt.

The clash started when the guerrillas were surprised during a morning search by the security forces.

# 'Most' of Securitate arrested, minister says

By Judy Dempsey in Bucharest

ROMANIA'S new Defence Minister, Mr Victor Stanculescu, yesterday moved quickly to reassure a sceptical population that the "vast majority" of Securitate officers had been arrested and that all telephone tapping had ended.

The statement came less than a week after Mr Stanculescu, formerly the Economy Minister, took up his new job following a wave of demonstrations by the army demanding a purge of the old guard and the dismissal of its minister, Mr Nicolae Militaru.

The ruling National Salvation Front, taken aback by the protests, quickly caved in and met all their demands.

Mr Stanculescu also confirmed that a new intelligence service was being set up, and made clear that it would be under direct army control.

The daily newspaper Tineretul Liber revealed yesterday that the deposed dictator Nicolae Ceausescu had tapped the phones of his own family and senior party officials as well as all the television studios.

The new minister's remarks are likely to gain considerable support from the population, particularly since the army has now clearly distanced itself from the ruling National Salvation Front.

Following the revolution, the NSF held a tight rein on the army by calling 12 generals out of retirement.

This caused resentment among the younger officer corps who feared for their promotion prospects.

They also wanted the Defence Ministry to be politically "neutralised," in order to give the army more authority in a crisis.

Mr Stanculescu's appointment is supported by the National Peasants and National Liberal parties, who seem to trust him because the army is no longer at the NSF's beck-and-call.

Yesterday young army officers said their demands last week were also aimed at "politically neutralising" the defence ministry. This, they said, would give the army more credibility in exerting their authority in a crisis.

In the longer term, officers say the army must be turned into a professional force. Under Ceausescu, conscripts and the corps were downgraded to virtual road-builders and manual workers.

Yesterday, Mr Stanculescu revealed that 270 army personnel had died during the revolution.

# Romania plans national park at Danube Delta

By William Dullforce in Geneva

THE Romanian authorities plan to turn the million-acre Danube Delta into a national park, the World Conservation Union (WCU) said yesterday from its headquarters in Gland, Switzerland.

The WCU said that the decision, announced at a recent conference on its East European programme in Moscow, signalled a radical reversal of the environmentally destructive development policies pursued by the former Ceausescu regime.

Romania was the only country among the 35 present at the first environmental meeting of the Conference on Security and Cooperation in Europe in Sofia last November that refused to sign a Europe-wide environmental agreement.

Mr Zbigniew Karpowicz, coordinator of the WCU's East European programme, said the new Romanian authorities had asked the WCU to organise a meeting in Switzerland of all the organisations interested in working in the Danube Delta.

The delta, Europe's second largest after that of the Volga, is one of the continent's few remaining wilderness areas.

The Ceausescu regime had reclaimed more than 10 per cent of it, primarily for agriculture, causing soil erosion, salination and dessication, Mr Karpowicz said. Now a government decree has halted all reclamation work.

# Carrington urges formal treaty between US and EC

By David Buchan in Brussels

THE European Community should assume some responsibility for defence and sign a formal treaty with the US to cement transatlantic links, Lord Carrington, the former Nato secretary-general, said in Luxembourg yesterday.

Several calls have been made for a treaty between the Community and the US, most weightily by Mr James Baker, the US Secretary of State, in December.

However, it is significant that so senior a former Nato official as Lord Carrington should talk in terms of a future role "for the Community in association with the US to assess and decide on the level of defence effort" in Europe.

Lord Carrington, delivering the Churchill Memorial lecture in Luxembourg, argued that if the EC were to assume responsibility for defence, there could be "a close military and technical collaboration between Britain and France, with their nuclear weapons, and the removal of the French problem over integration in the military structure of Nato would be attractive to the French Government."

He also said that he saw no difficulty in associating Turkey and Norway – the two non-EC members of Nato which happen to border on the Soviet Union – in any defence arrangements which the EC might make.

# Court setback for Spanish Government in scandal

By Peter Bruce in Madrid

SPAIN'S Socialist Government has been dealt an embarrassing setback in its efforts to counter a flood of corruption allegations against the brother of Mr Alfonso Guerra, the Deputy Prime Minister.

A Madrid high court judge has dismissed efforts by the Attorney General to sue the newspaper El Mundo, which has led the corruption charges against the Government – for suggesting that Juan Guerra was mentioned by name at a cabinet meeting in which it was decided to award a Pta145m (£790,000) subsidy to a company linked to him.

In court, the judge declared the report was in the public interest.

The Government has shown little of its normal political flair in handling the allegations that Juan built up a sizeable business empire from a government office put at his disposal by his brother.

Mr Felipe Gonzalez, the Prime Minister, has threatened to resign if his deputy is toppled by the charges, and the Government's response has been simply to accuse other parties of influence-peddling as well.

Observers believe Mr Gonzalez has been rattled by the affair, which has increased uncertainty in the party following Mr Gonzalez's stated desire to leave national politics after this term of office which ends in 1993.

# Commission looks at possibility of increasing controls on media

By Lucy Kellaway in Brussels

A DIRECTIVE covering the control of the media – an area which most countries regard as being exclusively of national concern – is being considered by the European Commission.

It is one of several dozen measures outlined yesterday by Mr Jean Dondelinger, the Media Commissioner, aimed at making the European television industry more able to meet the threat from the US and Japan.

The Commission believes existing rules on competition are not strong enough to catch all the cases in which a takeover in the media sector threatens to stamp out the variety essential to the industry's survival.

However, Mr Dondelinger did not say what such a directive would consist of, except that it would iron out the differences in policies between member states.

The Commission also intends to change the copyright rules covering television programmes which Mr Dondelinger said were no longer appropriate to an age of satellite and cable television.

These rules are felt to be hampering the development of a secondary market in European programmes, so that the growing gap between European programming capacity and broadcasting space is increasingly being filled by US programmes, rather than by programmes from European archives.

Mr Dondelinger said yesterday that member states should continue to be responsible for subsidies to the television industry.

This would mean that aid paid by member states to film makers could go on being funded under national rules although these would need to be "harmonised, regulated and circumscribed" by the Commission. His package of measures will cover technical, programme-making and broadcasting matters.

They will supplement the Television Without Frontiers directive, approved by member states last autumn, which introduced the controversial notion of majority Community content on television channels.

Mr Dondelinger said that it was mainly up to national governments to prevent excessive concentration because most mergers were too small to be covered by EC merger rules coming into force in September. These will give Brussels the right to vet big cross-border mergers.

Brussels is currently examining Italian media magnate Silvio Berlusconi's takeover of Italy's Mondadori group, which will substantially increase his domestic media holdings.

The Commission could order changes to the deal if it breaches EC treaty rules banning abuses of dominant market positions.

# French TV, where laws change as often as channels

### Raymond Snoddy talks to the Communications Minister behind the latest moves in a chaotic industry

MRS Catherine Tasca, the French Communications Minister, is adamant about one thing. She has no plans for any further legislation or regulation. Coming from the minister of a country that has got through no less than four major broadcasting bills and created three successive regulatory authorities in six years to tackle what many see as the chaos of French television, it is a significant statement.

"Neither the politicians nor the media people want to see further creativity in the legislative field. They feel we have had enough for the time being," said Mrs Tasca who became minister for communications and culture two years ago after managing theatres and being a broadcasting regulator in the last Authority.

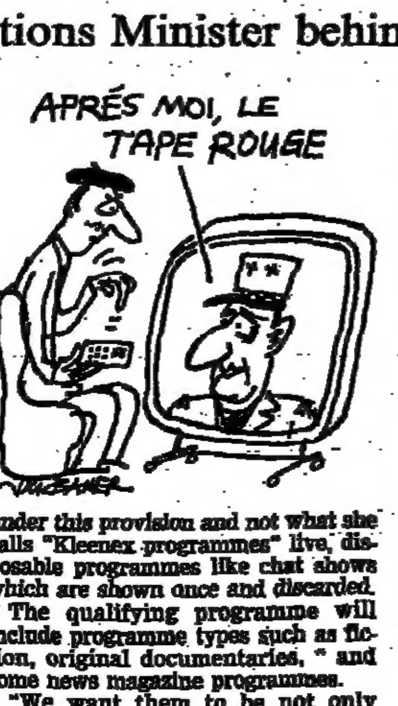
Mrs Tasca has recently completed a new round of legislation and regulation designed to redress the imbalance created by the privatisation of the French first channel, TF1, four years ago, encourage more French television production and in particular of enduring programmes - programmes that can be shown again.

"The transfer to the private sector of the first channel has I think endurably unbalanced the geography of communication in this country," said Mrs Tasca speaking in the ornate splendour of her 18th century office complete with two television sets. TF1 alone gets around 41 per cent of the French television audience compared with a bit over 30 per cent for the combined audiences of the two public channels Antenne 2 and FR3, the channel which carries regional programming.

Under the new rules 50 per cent of the output of the French networks must be of French origin and 60 per cent of European Community origin. This is much tougher than the EC directive on television which merely talks of a majority of programmes "where practicable and by appropriate means." From the beginning of 1992 the quota rules will apply specifically to prime time hours from 6pm to 11pm each day.

By the end of March, French broadcasters must chose between two formulae governing how much money they must spend on French production. Under one, a broadcaster must devote 15 per cent of net turnover to financing French production and transmit a minimum of 120 hours of French material in prime time. The other, slightly less onerous, aimed mainly at new channels such as La Cinq and M6 which are still losing money specifies that 20 per cent of net turnover should go to programmes of EC origin, 15 per cent of it French.

Mrs Tasca has turned the screw even tighter by saying that only the more durable programmes can qualify under this provision and not what she calls "Kleenex programmes" live, disposable programmes like chat shows which are shown once and discarded.




The qualifying programme will include programme types such as fiction, original documentaries, " and some news magazine programmes.

"We want them to be not only broadcasters we want them to invest (in original programme production)," Mrs Tasca said.

Apart from setting new obligations on broadcasters the French Government is making some money available to encourage types of programme the existing highly competitive market is failing to provide. A fund used to back French films is being expanded to include children's television programmes and a new body, L'Agence Jules Verne has been set up to help fund science programmes for French television.

There will also be an extra FFr 950m available this year for the two public channels, now under unified chairmanship to increase their competitive strength against the private sector.

When the present Socialist Government took over two years ago there was a vigorous debate on whether renationalisation of TF1 was the answer to the ills of French television - not just the imbalance in the audience figures but the intense competition that was driving the cost of increasingly similar television channels ever higher.

Apart from the success of Canal Plus, the pay television channel the outlook seemed bleak. The present Government decided to adapt rather than overturn the decisions of its predecessor.

"We feel as regards legislation and regulation we have achieved our goals in encouraging and strengthening the framework," says Mrs Tasca. She now believes that there will be some voluntary restructuring in the private sector of French television, the forming of alliances and the growth of co-operation between TF1 and La Cinq and M6. There appears to be a growing realisation that trying to murder the opposition in the ratings every single week may be far too expensive.

She is even optimistic that after more than a decade when the project came close several times to cancellation that the French direct broadcasting by satellite project TDF1 may become a significant force. Since last spring the TDF-1 satellite has been broadcasting very little to hardly anyone because there are few dishes available.

One of the four channels is being used, by La Sept the French cultural channel which supplements its small satellite audience by being broadcast on FR3 on Saturday nights. The other planned channels for TDF-1 are Canal Enfants for children and Sport 23 but both also want access to some remaining conventional frequencies in five cities including Paris. The fourth will be Canal Deutschland a film and sports channel aimed at the German speaking market.

Both the Government and its regulatory body the Conseil Superieur de l'Audiovisuel will monitor closely the new television environment but Mrs Tasca refuses to concede the new system of carrots and sticks will fail.

If it does she says with a smile "Maybe another minister may wish to have another law."

# Bids for new channel

By George Graham in Paris

FRANCE'S broadcasting authority has called for bids for a new coded television channel covering the Paris region.

The channel will broadcast on a frequency previously used by the French armed forces, and is viewed as a means of priming the pump for the TDF1 and TDF2 broadcasting satellites until enough homes have satellite dishes.

Transmitting from the top of the Eiffel Tower, the channel could reach around 3m inhabitants. Canal Plus, which runs a successful coded film channel, has been the keenest advocate of a seventh ground-based television channel.

The company is expected to bid for the new channel with its Canal Enfants children's station, which already has a channel on the TDF1 satellite, but says it needs a potential audience of at least 5m before it can start up.

NRJ, the pop music radio station, is also expected to bid for the channel. It is shareholder in Euromusique, a music station which is also due to broadcast from TDF1. France has not had a dedicated music TV channel since the last right wing government closed down TV6 in favour of the generalist M6.

La 7, a government-sponsored cultural channel on TDF1, is already broadcasting some of its programmes on FR3, the state-owned regional channel.

Cable TV has made much slower progress in France than the government had hoped, and Mr Paul Quilès, the telecommunications minister, launched an initiative two weeks ago with the aim of multiplying the number of subscribers, currently 250,000, by five within two years.

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# Kohl takes the burden of unity on his shoulders

By David Marsh in Bonn

AS the momentum towards German unity has gathered pace, so have the pressures bearing down on the broad shoulders of Mr Helmut Kohl, the West German Chancellor.

In October 1988, Mr Kohl said publicly that he would probably not see unification in his lifetime. Less than three months ago – in the immediate aftermath of the breaching of the Berlin Wall – the Chancellor's closest aides were predicting that five to eight years might still be needed before unity became a reality.

Now, the time horizon has shrunk dramatically, with a united Germany possibly a reality before the end of the year. Although the Chancellor sees the merger of the two states bringing him tremendous emotional and political dividends, it is hardly surprising that he and his advisers have been caught wrong-footed by the pace of change.

In putting forward his plan for a speedy introduction of the D-Mark in East Germany, the Chancellor "is throwing himself like a battering ram against the door of German unity," said one Bonn diplomat yesterday.

One of Mr Kohl's advisers said he was certain that monetary union would be introduced before the end of the year. But the Chancellor himself is not making light of the obstacles that must first be cleared before the door is finally broken through.

Making his first appearance at an East German election rally in Erfurt on Tuesday evening, before a crowd of well over 100,000, Mr Kohl was breathlessly introduced by a local conservative politician as "the Chancellor of our German Fatherland."

Mr Kohl does have a good chance of going down in the history books as the first Chancellor of a united Germany since Admiral Karl Dönitz, who took over briefly after Hitler committed suicide in April 1945.

But the prospective addition to the electorate of 11.5m voters from the East will drastically change Germany's voting arithmetic.

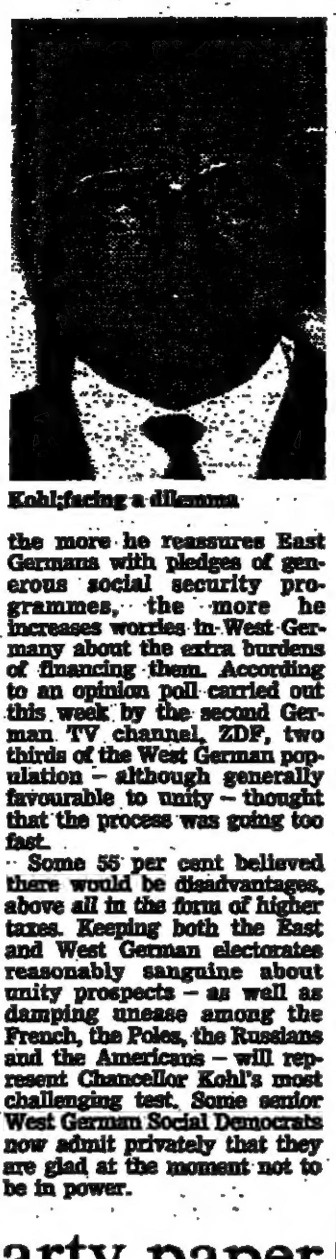
The Social Democratic Party is expected to emerge as the strongest party in the March 18 general elections in East Germany. Mr Kohl's Christian Democrats have lost ground almost continuously in the polls since the West German federal election in January 1987.

His chances of holding on to power in the next general elections in December – which could well be turned into a vote for a combined German parliament – will thus depend crucially on unity negotiations between East Berlin and Bonn in coming months.

Mr Kohl is well aware of the need to balance sensitivities in East and West Germany – as well as among Germany's partners abroad – over the repercussions of unity. In his Erfurt speech, which if anything toned down expectations of instant benefits from unity, Mr Kohl made use of the occasion above all to allay fears in the east that the switch to a market economy will lower living standards and erode jobs.

The Chancellor is especially anxious to counter claims by left-wing parties in the east that his monetary union plan will cause hardship among ordinary East Germans. These fears have been stoked up especially by the former Communist party, now called the Democratic Socialist Party (PSD).

Mr Kohl's dilemma is that



Kohl: facing a dilemma

the more he reassures East Germans with pledges of generous social security programmes, the more he increases worries in West Germany about the extra burdens of financing them. According to an opinion poll carried out this week by the second German TV channel, ZDF, two thirds of the West German population – although generally favourable to unity – thought that the process was going too fast.

Some 55 per cent believed there would be disadvantages, above all in the form of higher taxes. Keeping both the East and West German electorates reasonably sanguine about unity prospects – as well as damping unease among the French, the Poles, the Russians and the Americans – will represent Chancellor Kohl's most challenging test. Some senior West German Social Democrats now admit privately that they are glad at the moment not to be in power.

# East CDU criticises Kohl over unity moves

By Leslie Colitt in East Berlin

THE RAPID unification of Germany sought by Mr Helmut Kohl, the West German Chancellor, was sharply criticised yesterday from an unexpected corner – his Christian Democratic Party counterpart, the CDU in East Germany.

Mr Ulrich Winz, press spokesman for the East CDU said Bonn's policy toward East Berlin was creating added insecurity among East Germans. "Some people in the (East) CDU believe that Kohl thinks too much about big business and less about the people here," he said in an interview.

Mr Winz said the Chancellor had moved away from his earlier concept of a "contractual community" between the two Germanys and was now steamrolling toward unification.

His criticism came a day after Chancellor Kohl emotionally evoked the unification theme in Erfurt at his first campaign rally for next month's East German elections. It reflected continuing tensions between Mr Kohl and the head of the East CDU, Mr Lothar de Maiziere.

All parties in East Germany's Communist-dominated parliament yesterday voted in favour of German unification but warned against a "sell-out" of East Germany and moving too quickly.

Meanwhile, Ms Christa Luft, the Economics Minister, said that food subsidies, worth 30bn East German Marks annually, will not be cut before the elections. The Round Table of Government and opposition representatives had demanded that subsidies be eliminated before the polls.

# Soviet ambivalence over reunification

## IAN DAVIDSON ON EUROPE

JUST UNDER two weeks ago, at a meeting with Chancellor Helmut Kohl in Moscow, Mr Mikhail Gorbachev gave the Germans a free hand "to decide on the ways, the forms, and the time-frame of their unification".

This clear commitment to the principle of self-determination is all of a piece with recent Soviet policy towards the continuing revolutions in eastern Europe, and he restated it in an interview in Pravda earlier this week.

At the same time, however, it is clear that the Soviet leadership remains deeply ambivalent about the prospect of German unification.

At the recent plenary meeting of the central committee of the Soviet Communist Party, the conservative Politburo member Mr Yegor Ligachev issued sombre warnings of the possible dangers.

Even Mr Eduard Shevardnadze, Foreign Minister and chief executant of improved east-west relations, claimed that "the spirit of revanchism is wandering throughout Europe, embracing the ideas of unity and unification; the thirst for justice is dissolved with the thirst for political revenge".

The ambivalence is historically understandable. The victory over Nazi Germany, which is symbolised in populist terms by the division of Germany, was paid for with over 20m Soviet dead.

Central committee officials now claim that the party is receiving floods of letters from ordinary people accusing the authorities of giving away the hard-won achievements of the Second World War.

What is not so evident is where this ambivalence takes the Soviet leadership in policy terms. There is already an east-west agreement that unification must be framed within the rights of the Four Powers and the pan-European Helsinki process; but in substantive terms the Soviet position remains unclear.

The Germans have complete freedom to choose; but they cannot choose unification without the prior agreement of other interested states.

Unification must not upset the strategic balance between Nato and the Warsaw Pact; but a unified Germany should be neutral and demilitarised. Here are two pairs of contradictions, which cannot logically be reconciled.

The first contradiction is less difficult, because it may be no more than a diplomatic fiction. The Germans need the endorsement of the outside world, because otherwise their position will be politically untenable, and a number of issues, such as the eastern frontiers, can only be settled through an international negotiation; the Helsinki system is the obvious forum.

Yet the pressure of people power, and the strains of migration, mean that unification will occur de facto, whatever the outside world thinks, and probably sooner than the international claims can be settled. The diplomatic challenge is to try to reconcile these two realities even if with a time-lag.

> If balance is the objective, membership of Nato is the least disturbing solution, especially if arms control in general progressively reduces the military dimension of the two alliances.

The second contradiction is more problematic. Mr Gorbachev says that unification should not disrupt the strategic balance between Nato and the Warsaw Pact; yet anyone can see that unification is bound to have *some* disruptive effect on this strategic balance.

No doubt Mr Gorbachev wishes, reasonably, to reduce the disruptive effect to a minimum; yet his stated preference, for a demilitarised and neutral German state, would involve much more radical upheaval than some of the other conceivable options.

- The unified Germany could choose to leave both alliances, and adopt a Swiss-type neutrality as a sovereign state.
- *It could have neutrality imposed on it*, through some kind of east-west agreement.
- It could remain in Nato.
- It could join the Warsaw Pact.

Both of the neutrality options would involve colossal upheavals in the east-west strategic balance.

Independent and sovereign German neutrality would provide no reliable long-term guarantees against Soviet (and Polish) fears, since it would in reality liberate the Germans from multilateral constraints, and could in time resuscitate the spectre of a Germany loose at the heart of Europe.

Imposed neutrality might provide those guarantees, but it would be conditional on a far-reaching east-west consensus to restrict German sovereignty, which is certainly not available today, which would in effect amount to a vast reversal of alliances, and which would be an intolerable repudiation of West Germany's impressive democratic record.

Over time, additional rounds of the Vienna talks on the reduction of conventional forces in Europe (CFE) could lead to some relative demilitarisation of the two alliances, with far-reaching verification and confidence-building measures so as largely to rule out any danger of aggression. But the basic assumption of these talks is the negotiation of an east-west military balance, where the balance is between the two alliances.

United German membership of the Warsaw Pact is self-evidently an absurd idea, but it would also radically shift the east-west strategic balance.

If balance is the objective, membership of Nato is the least disturbing solution, especially if arms control in general progressively reduces the military dimension of the two alliances, and in particular reduces the military forces based inside the two Germanys.

So why does Mr Gorbachev insist on the neutrality issue? He has a well-established reputation as one of the clearest-sighted leaders on the world stage. He usually seems to mean what he says, and usually what he says seems to make a lot of sense. In this case, however, there is a puzzle.

One possible explanation is that he is playing a domestic political game, in front of a popular Soviet audience which is becoming increasingly demanding. Just as he recently conducted street-level debates with the crowds in Lithuania to show the TV viewers back home that the Lithuanian independence movement was irresistible, so he is now trying to appease folk memories of Second World War with calls for German neutrality.

An alternative explanation is that he has come to put such faith in the new partnership with the US, and in residual western (and Polish) fears of German militarism, that he genuinely believes he could secure a reversal of alliances in the establishment of a new European order of peace.

It seems far-fetched; but then everything that has happened in eastern Europe in the past six months is almost equally difficult to believe.

# Poland calls for frontier guarantees

By Christopher Bobinski in Warsaw

POLAND has called on both German states to initial a treaty with Warsaw guaranteeing the country's western frontier at the initial stages of a forthcoming four-power conference on the issue of reunification.

Mr Tadeusz Mazowiecki, the Prime Minister yesterday told a press conference in Warsaw that Poland wanted to be represented at the early stage of the conference "which should be devoted to the problem of the security of Germany's neighbours."

"It is unthinkable that states should take decisions about the security of other states," he said.

He added that notes on Poland's participation in the conference were being sent to the leaders of the United States, the Soviet Union, France and Great Britain.

He envisaged that the pact with Poland on the frontier would be signed with Germany once it had been reunited. Poland, which was attacked by Germany in 1939, did not sign a peace treaty after the War ended.

# Old-style party paper changes to new times

By Leslie Colitt in East Berlin

NEUES DEUTSCHLAND, the formerly militant mouthpiece of the East German Communist Party, was radically transformed this week into a remarkably objective and commercially oriented western-style newspaper.

ND, as it is known to most East Germans, shed its endless columns of grey type and emerged strongly resembling leading West German newspapers. In tune with the times it was filled with ads placed by West German companies out to sell their services and wares in East Germany and looking for "ambitious, hardworking" local representatives.

The shift from ideology to profitability was signalled by an ad last week in ND proclaiming "We are the professionals of the Deutsche Post." It offered the services of East German postal experts "experienced" in tracking down electronic listening devices.

The ad said the bug detection service would be of special interest to the new political parties and could be carried out "before the elections" next March 18. But the real change to the newspaper, formerly regarded as one of the worst reads in the Communist bloc, was in editorial content.

The first issue carried a front page interview with Mr Stefan Heym, a leading opposition writer who for years was the old leadership's number one public enemy. Inside, the newspaper began serialising Mr Heym's 1970's novel "Collin" which deals with the state security web and was previously only published in the West.

The recently appointed editor-in-chief of Neues Deutschland, Mr Wolfgang Spickermann, thanked the more than one million readers of ND for their loyalty and noted that the newspaper would raise its 15 pfennig ($0.09) cover price in April along with other East German newspapers.

It was questionable, however, whether ND will be able to hold on to anything like its previous readership. Party membership has sunk to 700,000 from 2.3m and is still falling.

Several newspapers from West Berlin and West Germany have gone on sale in East Germany and a number of lively new East German dailies are to be launched.

# LDP win shrugged off as markets take fright at Tokyo interest rates

By Stefan Wagstyl in Tokyo

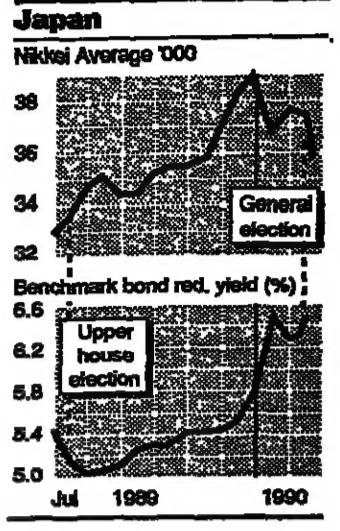
A resounding general election victory for the ruling Liberal Democratic Party was supposed to prompt a rally in the Tokyo financial markets. In the event, the LDP's success in Sunday's poll has been followed by a decline in the yen, a collapse in bond prices and the third-biggest plunge on record in the Nikkei equities index.

With hindsight it is clear investors had long taken an LDP victory for granted. Once the votes were counted, fund managers forgot about party politics, looked again at economic realities and took fright at the prospect of rising interest rates in Japan and overseas.

The first warning signs appeared on Monday when Japanese shares barely moved on the news the LDP had won by a wider margin than expected. On Tuesday, Japanese government bond prices collapsed, sending the yield on the 10-year benchmark instrument above 7 per cent for the first time since 1985.

Yesterday, the Ministry of Finance moved to rescue the beleaguered bond market, buying some Y90bn (£366m) of bonds in a highly-unusual operation last seen three years ago. But it was too late to save equities. Responding to Tuesday's fall on Wall Street, the Tokyo stock market plunged taking the Nikkei down 1,161.19 points to 35,734.33 – its third biggest one-day fall ever and the largest since the world stock market crash in 1987.

It was enough to prompt some fund managers to press panic buttons. Speaking on Japanese television, Mr Kazuaki Harada, managing director the Sanwa Research Institute, an affiliate of Sanwa




Bank, warned of the risk of another global crash. He said dealers were concerned about a vicious circle in which shares in industrialised countries fell in a chain-reaction.

But most market-watchers took a more measured view. There was little excitement in stock trading yesterday. Turnover was only 400m shares. Fund managers mostly sat on the sidelines saying the fall had been long overdue. They pointed out the Nikkei has now fallen 8 per cent from its all-time high last December of 38,915.87 – a perfectly reasonable correction given the index rose 13 per cent in the previous three months. Despite all the drama, the Nikkei is only back to where it stood in November.

Moreover, the Japanese economy is growing at an annual rate of more than 4 per cent, in its longest sustained expansion since the 1960s. Companies are making record profits. The bargain-hunters could be out in the market before the end of the week.

Nevertheless, the confidence which distinguished Tokyo from the rest of the world in October 1987 and again in October last year is fading. Japanese investors are now falling prey to the same fears that stalk London and New York, fears that the spectacular bull market of the 1980s has run its course and may end in a very unpredictable way.

Japanese investors are also worried about the future course of relations with the US, which is putting increasing pressure on Japan over trade.

But their biggest worry is rising interest rates. At first fund managers did not believe that increases in short-term rates would last. Two successive hikes in the Official Discount Rate by the Bank of Japan last year had little effect on bonds or equities. But a third increase on Christmas Day to 4.25 per cent finally convinced investors that the central bank was serious – and bonds and equities plummeted. Now there is talk of a further increase in the ODR soon.

The bank's chief concern is curbing a possible resurgence in inflation. Consumer prices last year rose by 2.3 per cent, compared with 0.8 per cent in 1988. But the figure is inflated by a consumption tax introduced in April. For 1990, the rate of increase is widely forecast to fall below 2 per cent.

This is not good enough for the bank, is concerned that in key areas of the economy, price pressures are much greater. It fears labour shortages are driving up wage costs and that the decline of the yen from an average of Y128 to the US dollar in 1988 to Y141 last year is raising the cost of imports.

The central bank is particularly determined to prevent another round of land price increases which it worries increases the gap between the haves and have-nots.

The central bank is having trouble in taming the money supply. Figures released this week show it grew by 11.5 per cent year-on-year in January - after a low of 9.4 per cent in the middle of 1989. Yesterday bank officials said the latest figures would not necessarily prompt another hike in the official rate - but most investors think it is only a matter of time before the bank acts.

Tokyo now seems more susceptible to external market pressures than it was a year ago. Comments by Mr Alan Greenspan, chairman of the Federal Reserve Board, on US inflation fears had an immediate effect in Tokyo on Tuesday. Prompt action by the Finance Ministry prevented a further decline in Japanese government bonds. But next time it could be different.

At just under 7 per cent, the yield on Japanese government bonds is still well below 9 per cent paid on government bonds in West Germany. The Bank of Japan denies it, but the trigger for action could be a further decline in the yen, which yesterday closed in Tokyo below the psychological level of Y145 to the US dollar.

If the bank does nothing the yen could fall further - multiplying the chances of more drastic interest rate increases. With so many options facing the bank it is hardly surprising that Japanese investors are more interested in the actions of their central bank officials than of their politicians.

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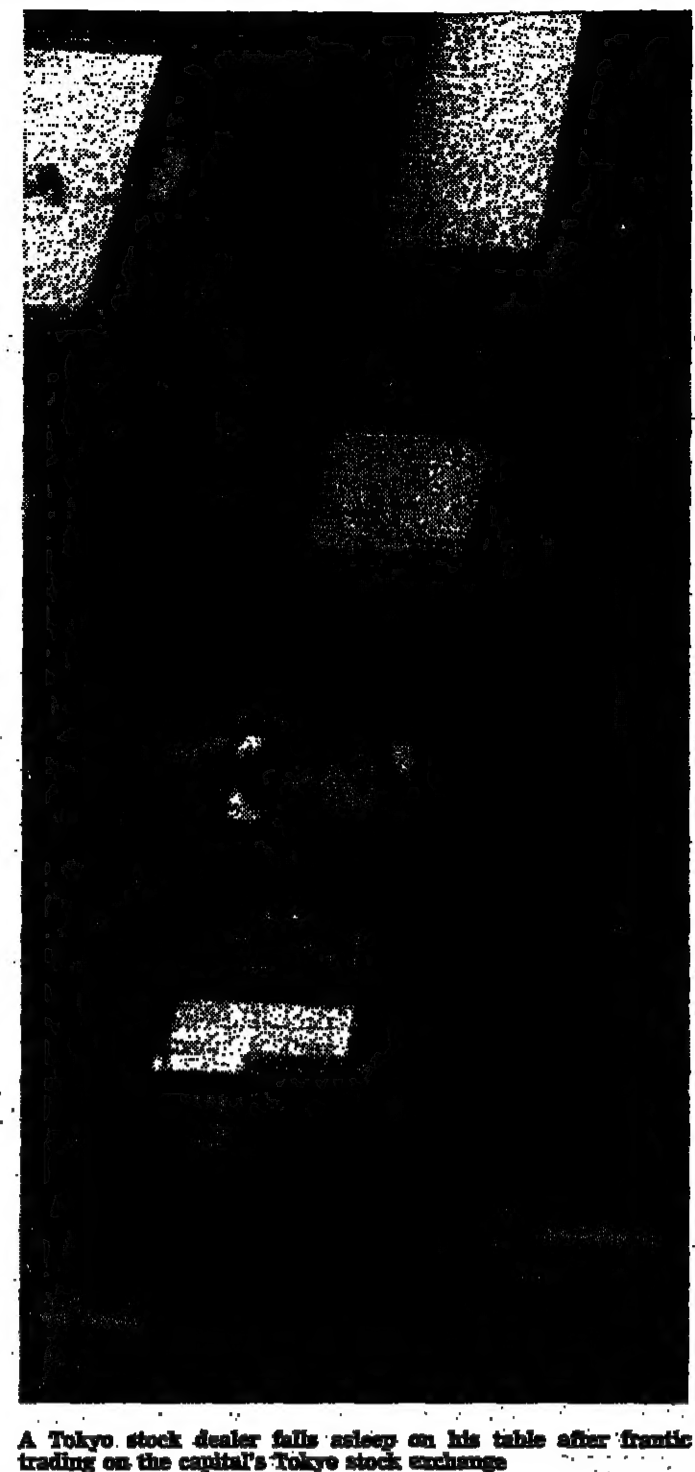


A Tokyo stock dealer falls asleep on his table after frantic trading on the capital's Tokyo stock exchange

# World's equities find euphoria a thing of the past

By Simon Holberton

IT does not happen often but when the bond market bites the equity market howls.

The day of reckoning came with a wallop yesterday in Tokyo where equity prices recorded their third biggest fall on record.

Less dramatically, equity prices in the world's major markets have been adjusting to a sharp rise in long-term interest rates, and the possibility of further rises in official interest rates, for some time.

Since the beginning of the year bond markets around the world have been flashing red. The threat of inflation has reappeared as their main concern and to this has been added the perceived risks associated with German monetary and economic unification and some worrying trends in Japanese capital outflows.

As bonds and equities are to some extent substitutes for each other, a rise (or fall) in the price of one can affect the valuation of the other. Over the past eight weeks the fall in bond prices has undermined the euphoria with which the equity market greeted the New Year and decade.

● In West Germany the bond and equity markets have been affected by the prospect of unification with East Germany. Long-term interest rates have risen from 7.42 per cent to 8.76 per cent, having hit a high of 9 per cent earlier this week.

Many in the markets believe that the short-term cost of unification will be higher official interest rates, needed to cool the inflationary impulse from the east which they think unification may bring.

The West German equity market, initially slow to react to the rise in long-term rates, has fallen sharply. It still shows a positive 2.5 per cent gain since the beginning of January but that is 8 per cent off its high for the year.

According to Mr Mark Brown, economist at UBS Phillips & Drew, the better performance by the West German market may indicate that it has moved to a new, higher level of valuation, relative to German government bonds.

● In Japan, short-term interest rates are also expected to rise now that the Liberal Democratic Party has been returned to power. Recent money supply data showed an annual rise in January of 11.5 per cent, up from an annual rise of 10.6 per cent in December. House price inflation in Japan remains a concern.

Interest rates have gone up from 5.72 per cent to 6.78 per cent since the beginning of the year; the Tokyo equity market has declined by 8 per cent.

● The situation in the US and the UK is somewhat different. Analysts believe official interest rates there have peaked, but see little likelihood of an early cut. But both are reacting to influences from abroad and domestic inflation concerns.

In the US long-term interest rates have risen from 7.98 per cent to 8.57 per cent, while equity prices have fallen by 6 per cent.

**Bond markets have reacted to symptoms of inflationary pressures which occur at the end of an economic cycle**

In the UK long rates have risen from 10.14 per cent to 11.20 per cent and the UK equity market has fallen nearly 7 per cent.

At a global level bond markets have reacted to symptoms of inflationary pressures that typically occur towards the end of an economic cycle.

According to Mr George Magnus, international economist at S.G. Warburg Securities in London, many big economies are getting to the point where capacity constraints are limiting output. Labour market conditions are tightening thereby reducing the room for productivity growth and fuelling rises in unit costs.

He also points out that Japan is finding use for its capital at home. In 1988 Japan's long-term capital outflow amounted to $130.9bn; in 1989 outflows had fallen to $87.9bn. This is occurring at a time when demand for scarce savings is set to rise with the potential economic development of eastern Europe.

This raises the possibility that the rise in nominal long-term interest rates also reflects an increase in real interest rates (after adjustment for inflation) to take account of the potential demand for capital from the east.

# Finance ministry takes steps to prop up Japanese bonds

By Stephen Fidler, Euromarkets Correspondent, in Tokyo

JAPAN'S Ministry of Finance, worried by the shift in long-term interest rates to the highest level in almost five years, moved into the government bond market as a buyer yesterday.

It was the first time the ministry had used its debt consolidation fund to buy government bonds since bond markets worldwide went into retreat in 1987 ahead of the stock market crash.

The move was triggered yesterday by the rise of long-term bond yields above 7 per cent on Tuesday, and helped to bring about a sharp rally.

From the day's worst level, when the benchmark bond was yielding 7.09 per cent, the market rallied to leave the yield at 6.89 per cent at the close of the Tokyo stock exchange and at 6.76 per cent after hours.

The ministry, reported as saying it would continue to use its debt consolidation fund flexibly in the future, was estimated to have bought about Y90bn (£366m) of paper. This is small in relation to monthly issuance, but important symbolically.

The market gained further support from the 3 per cent fall of share prices on the Tokyo exchange. This may have encouraged the view that worries about triggering a further drop in share prices might put off the expected rise in the Bank of Japan's official discount rate, now at 4.25 per cent.

The cause of the bond market declines have been worries about inflationary tendencies in the Japanese economy, underlined by the 11.5 per cent jump in money supply in January, reported on Tuesday. This is overlaid onto the belief that events in eastern Europe have put a higher floor on bond market rates worldwide.

Some, such as Mr Kermit Schoenholtz, senior economist at Salomon Brothers in Tokyo, see the worry about inflation as overdone and says the market is suffering from "inflation illusion".

He puts the core rate of inflation at about 1-1½ per cent, and says much of the rise in money supply is due to financial deregulation which is causing a shift of savings into time deposits.

He says that the expected evidence of upward pressure on wages has not materialised, and that competition is too intense in the Japanese market to allow companies to use higher input costs caused by a weaker yen as an excuse for raising prices.

END OF A POLITICAL ERA AS WATANABE TAKES OVER

# Nakasone quits as faction leader

By Ian Rodger in Tokyo

MR Yasuhiro Nakasone, one of the few Japanese politicians in the post-war period to make any impression outside his own country, stepped down yesterday as chairman of the faction he founded in 1965.

The new head of the faction is Mr Michio Watanabe, the former minister for international trade and industry who has intermittently harboured prime ministerial ambitions.

A blunt earthy politician, very different from the austere and elegant Mr Nakasone but popular with his political peers, Mr Watanabe was not afraid to say that the Recruit scandal only amounted to business as usual, and if the people wanted politics clean, they should elect priests.

Mr Nakasone's resignation marks the end of an era. It was also the latest in a series of humiliations that has seen the once proud and powerful leader stripped of political influence within the ruling Liberal Democratic Party.

The first slight came last May when he agreed, as the one who had been prime minister when the Recruit company accelerated its campaign of bribing top politicians, bureaucrats and businessmen, to quit the party. He also resigned formally as head of his faction, then the second largest in the LDP, but continued to run it in practice and so maintained

Nakasone: realised that his future was on the line

influence in cabinet and party executive appointments.

As time went on, the weakness of his position became increasingly apparent. He could not act as the faction's spokesman, and bickering among potential heirs intensified. His unpopularity also made it difficult for him to raise funds for a foreign affairs think tank that he had founded in 1988, and last November he resigned from that too.

In the general election campaign earlier this month, he was under threat in own constituency because of Recruit and could not campaign for other faction members as leaders are supposed to do.

In the event, he won his own seat with ease, but 10 other faction members were defeated, the largest number from any LDP faction to lose. It dropped from second to fourth rank as a result, and lost its right to name one of the top three party officials.

The Nakasone faction has a more noble history than most in the LDP. The former prime minister established it himself in 1965, attracting 28 LDP members who shared his conservative views and concern about security and foreign policy issues. Most factions, then and now, are identified only with patronage, not with ideology. While other factions split or changed leadership many times in the past 25 years, the Nakasone faction remained intact and grew to become a major force in the party.

Mr Watanabe was effusive in his praise of Mr Nakasone yesterday, saying the former prime minister was "an international political figure who has vast experience and who still has much to contribute".

● Indications that the Liberal Democratic Party intends to rejuvenate its leadership were confirmed by three senior appointments made yesterday. Mr Ichiro Ozawa, the main campaign strategist has been reappointed the secretary general, a post considered second only to that of prime minister. Mr Takeo Nishioka, a former education minister, was named chairman of the party's general council and Mr Mutsuki Kato, a former agriculture minister, was appointed chairman of the party's policy research council. All three men are representatives of a younger generation than the previous party leadership. Younger members are also expected to figure prominently in the cabinet.

# Maude fails in mission to Hanoi on boat people

By Our Foreign Staff

BRITAIN has failed to persuade Vietnam to agree to more mandatory repatriation of boat people from Hong Kong. The Hanoi government has refused to authorise any flights since the first which took 51 people back to Vietnam against their will and which raised a storm of international protest.

British officials in London said yesterday, however, that the UK had been given "a firm expectation " that agreement on mandatory repatriation could be reached by the end of this month.

Mr Francis Maude, Minister of State at the British Foreign Office, visited Hanoi to try to persuade the Vietnamese government to change its mind in advance of the new sailing season which is imminent.

The failure will be a disappointment to both the British and Hong Kong governments, but Vietnam did agree to speed up the flow of refugees volunteering to come home from camps in Hong Kong to 1,000 per month.

Mr Maude said both sides agreed to try to resolve the problem of repatriation by the end of February. Britain wants to send home forcibly about 43,000 Vietnamese boat people from overcrowded camps in the colony and avert a further influx when weather conditions improve next month.

"Voluntary repatriation will be increased by the beginning of May to around 1,000 (per month), and that's a substantial increase," Mr Maude said.

Asked what he achieved at his talks in Hanoi Mr Maude said: "We are returning with something very substantial – a commitment to reach agreement on alternatives to voluntary repatriation by the end of February." However, as that is just one week away it is not clear whether this agreement is anything more than a face-saving ploy to avoid having to announce outright failure.

It is possible that the Vietnamese are arguing for a substantial increase in the "bounty" of $650 paid by the UK for each boat person accepted back against his or her will. The Vietnamese have always insisted they will negotiate the terms plane by plane.

# Labor sets out its stall with pledge of wage increases

By Chris Sherwell in Sydney

MR PAUL KEATING, the Australian Federal Treasurer, yesterday unveiled a vote-seeking package of wage increases, tax cuts and other economic measures as the chief plank in the Labor Government's platform for re-election.

The package – the first set-piece event in a five-week campaign which concludes with polling on March 24 – comprises an agreement, dubbed the "Accord Mark VI", between the Government and leaders of the powerful Australian trade union movement.

Labor's aim is to reinforce its claim to be a better manager of the economy and industrial relations than the opposition Liberal and National party coalition. But the coalition quickly attacked the package as irresponsible, and business groups expressed disappointment.

In related commments on the economy, Mr Keating said conditions allowed sustainable falls in interest rates. His remarks lifted the share market, where the All Ordinaries index rebounded from a low of 1,611 to 1,624, down six on the day, but weakened the Australian dollar, which eased to 58.3 from 58.5 (May 1970=100) on a trade weighted basis.

The wage-tax package is said to provide for an overall 7 per cent increase in pay during the 1990-91 financial year starting in July, against an assumed 6 per cent rise in prices. Its main features, on the basis of average earnings of A$540 ($242) per week, are:

● A flat 1.5 per cent increase (about A$8.30 per week) in the last quarter of 1990, and a second flat 2.3 per cent (about A$12) increase six months later. These are to come on top of a 3 per cent rise (A$16) in

Australian Elections

July as the second instalment of the current wage round. Further productivity-related increases can be negotiated at the enterprise level.

● Another increase in employer contributions to occupational superannuation, equivalent to 3 per cent of ordinary time earnings, starting in May 1991 with a 1 per cent contribution and phased over three years. Tax deductions for individuals' contributions are also increased.

● Tax cuts of A$7.50 per week (equivalent to more than A$12 in pre-tax wages), with effect from January 1. These are to be achieved through a A$300 increase in the tax-free threshhold of A$5,400 per year and adjustments to marginal tax rate scales, and are worth A$1.2bn (A$2.5bn in a full year).

● Cuts in defence spending of A$80m and in social security spending, plus an April 1 rise in tax on luxury cars (costing more than A$43,000) from 30 per cent to 50 per cent, benefiting government revenue by an overall A$348m.

● Additional spending of A$323m for unspecified purposes, but likely to be on the politically sensitive matters of child care and roads.

● A new system of unemployment payments to ensure that benefits go to those genuinely trying to find a job.

Dr John Hewson, shadow Treasurer, attacked the plan as "economic madness" for failing to tackle inflation, a point echoed by Mr Ian Webber of the Business Council.

The next big focus of the campaign comes on Sunday, with a TV debate between Mr Bob Hawke, the Prime Minister, and Mr Andrew Peacock, leader of the opposition.

# France ready to provide Pakistan with N-plant

PARIS was ready to provide Pakistan with a nuclear power plant, previously cancelled after US pressure, President François Mitterrand said yesterday, Reuter reports from Islamabad.

He told a joint news conference with Prime Minister Benazir Bhutto that the power plant would come under full international safeguards. He had authorised French companies to present an offer for the sale of a nuclear power plant in collaboration with one or more foreign groups.

Asked if he believed Pakistan's pledges it did not possess nuclear weapons, President Mitterrand said: "We have decided to show full confidence in Pakistan". Fears that Pakistan was on the point of acquiring nuclear weapons prompted France, under Western pressure, to cancel an order for a nuclear reprocessing plant in 1978. Pakistan had paid $200m (£125m) and has demanded repayment, plus damages.

President Mitterrand added: "France and Pakistan have agreed to seek an amicable accord on the retreatment plant, including compensation mutually agreed". Pakistan, like India, which exploded a nuclear device in 1974, has never signed the nuclear non-proliferation treaty (NPT).

Ms Bhutto said: "Pakistan is not a signatory to the NPT, but has always kept by its provisions. We are not seeking to enter a nuclear arms race". Pakistan would sign the pact when India did.

# Hun Sen and Sihanouk agree on UN peace role

By Our Foreign Staff

HUN SEN, Prime Minister of Cambodia, and Prince Norodom Sihanouk, leader of one of the country's opposition guerrilla groups, yesterday signed an agreement stressing the need for a United Nations role in bringing peace.

They also agreed on setting up a supreme national body as a symbol of "national sovereignty and national unity", adding that "the UN presence at appropriate levels in Cambodia is essential and should be encouraged". It is not clear whether the two agree what the UN role should be.

The agreement, after five hours of talks in Bangkok, is believed to be the first signed by the two sides since war began 11 years ago. The talks, organised at Prince Sihanouk's request, were hosted by General Chatichai Choonhavan, Thailand's Prime Minister, who has been advocating a step-by-step approach to peace in Cambodia rather than a comprehensive settlement.

They were held in advance of wider talks in search of a Cambodian solution due to start on Monday in Jakarta.

The two men last met in Paris last August at an international conference on Cambodia which ended in deadlock.

The Jakarta meeting will be attended by the Cambodian Government, the three guerrilla factions, Vietnam, Laos, France, Australia and the Association of South-east Asian Nations.

# S African defence chief 'aware of secret unit'

By Michael Holman in Johannesburg

A LEADING South African newspaper yesterday alleged that a secret army unit suspected of involvement in political assassinations was ultimately answerable to General Magnus Malan, the country's Defence Minister.

An article in the Star, the Johannesburg daily, claimed that Gen Malan had been aware of the existence of the Civil Cooperation Bureau (CCB), a shadowy Defence Force organisation, since its inception in 1987.

The bureau is being investigated for its possible involvement in the killings of Mr David Webster, a South African academic, and Mr Anton Lubowski, a Namibian lawyer.

On Tuesday Gen Malan issued a statement denying he had ordered members of the unit to kill anti-apartheid activists.

Both the far right Conservative party and the liberal Democratic party have called for his dismissal and an investigation into the Bureau.

The Star said "a chain of command involving several generals, and leading directly to the office of the Minister of Defence, controlled the activities" of the bureau.

A senior police officer investigating the killings of Mr Webster and Mr Lubowski has told a South African court that he suspected that members of the bureau were involved.

# FT journalist held in Sudan

SUDANESE security authorities have detained Mr Julian Ozanne, the Nairobi-based correspondent of the Financial Times and the Sunday Correspondent, officials said yesterday, Reuter reports from Khartoum. They said he was being held at security headquarters in central Khartoum.

On Tuesday he interviewed Col Bakri Hassan Saleh, a member of Khartoum's ruling military junta in charge of security, who accused western media of hostility towards Sudan.

Mr Ozanne told Reuter yesterday shortly before he was held: "He told me that he knew of all my movements since my arrival and the people I saw." He said his hotel room had been searched and documents taken.

## AMERICAN NEWS

# US report attacks Peking over human rights abuses

By Lionel Barber in Washington

THE US yesterday sharply criticised China for human rights abuses, highlighting killings in Tibet and the crackdown in June on peaceful pro-democracy protesters in Peking.

The censure of China in the State Department's annual report to Congress on human rights worldwide contrasted with praise for dramatic improvements in the records of eastern European countries and the Soviet Union.

Elsewhere, the report singled out Nicaragua and Iraq for human rights abuses and condemned violence by Israel in the occupied territories of the West Bank and Gaza Strip.

On China, the 1,641-page report said: "The human rights climate deteriorated dramatically in 1989... Virtually all recognised human rights discussed in this report are restricted, many of them severely."

Referring to the death of hundreds, possibly thousands, of demonstrators during the Peking massacre, the report also noted "indiscriminate and excessive use of force" against demonstrators in Lhasa, Tibet, last March, where scores of people were killed.

It also noted reports of torture in Chinese jails, detention and execution of political dissidents without due process, and the harassment and expulsion of foreign journalists.

The blunt language could complicate President George Bush's efforts to maintain high-level contacts with the Communist Government in Peking, and is bound to fuel congressional criticism of his China policy.

The Chinese foreign ministry said yesterday that it had no new comment on the report, though it warned two weeks ago that it was "based on rumours" and would seriously harm bilateral relations.

By contrast, the State Department paid tribute to a "remarkable opening up of the political process and improvement in human rights practices" in the Soviet Union.

The criticism of Israel is in line with last year's report which dwelt on methods used to suppress the Palestinian uprising in the occupied territories. In 1989, 432 Palestinians were killed, 304 by Israeli soldiers and settlers, and 128 by other Israelis. Some 10 deaths were attributed to beatings.

# More austerity measures likely for Canada, economists warn

By Bernard Simon in Ottawa

THE Canadian Government will probably be forced to impose sterner austerity measures over the next two years to reach the budget deficit targets set by Finance Minister Michael Wilson in his budget speech on Tuesday evening.

Canadian economists, while generally applauding the restraints on government spending imposed by Mr Wilson, are virtually unanimous in disagreeing with his economic forecasts, which include a substantial drop in interest rates over the next two years, combined with moderate inflation, but a surge in growth during 1991.

Mr Lloyd Atkinson, chief economist at Bank of Montreal, said yesterday, that his own interest rate forecasts suggest a budget deficit of C$31bn ($25.8bn) in the year to March 31 1991, compared to the C$28.5bn projected by the Government. Mr Atkinson predicts a deficit of C$34bn in 1991-92, compared to Ottawa's forecast of C$26.5bn.

Mr Wilson entirely avoided tax increases in his budget, but said spending on a wide variety of government programmes will be frozen for two years, while increases on others will be capped at 5 per cent a year. As a result, the budget deficit is targeted to drop within the next five years from C$30.5bn to C$10bn.

Although last year's budget projected the 1990-91 deficit at C$28bn, unexpectedly high interest charges have forced further belt-tightening to enable the target to be met. Mr Wilson stressed the government's determination to ease its debt servicing burden, which will total about C$40bn in the current fiscal year, 10 times higher than it was in 1975.

The main victims of the spending restraints are the 10 provinces, and in particular, the three richest ones, Ontario, Alberta and British Columbia.

The provinces have reacted angrily to the cutbacks, warning that they will cause a drop in health and education standards, although a more likely result is a jump in their own taxes and cuts in the funding they provide to municipalities.

Echoing his colleagues, New Brunswick's Finance Minister, Mr Alan Maher said yesterday that "we're going to have to do the nasty things that they don't want to do." The Ontario Government pointedly announced the day before Mr Wilson's budget that it expects to achieve a small budget surplus in the current fiscal year, after five years of exceptionally strong economic growth.

With public support for the Conservative Government at an all-time low, Mr Wilson stopped short of tampering with the politically sensitive social security net.

The Government may have little choice but to start trimming these personal transfers, which make up about one-fifth of its total spending, if its budget targets are not met. "That's when the pain really strikes home," Bank of Montreal's Mr Atkinson noted.

Mr Wilson's other major budget announcement was that legislation will be drawn up later this year to clear the way for the sale of the big state-owned oil company Petro-Canada.

Public interest in Petro-Canada is likely to be strong, especially in the oil-producing provinces of western Canada, where its Calgary head office was once nicknamed Red Square.

# Sandinistas cocksure over Nicaraguan poll

## Old-fashioned spending spree sweetens the revolutionary message, writes Tim Coone

COCKFIGHTING is a rowdy and popular spectator sport in Nicaragua. Once spirits are roused, it is not unknown for more than just the blood of chickens to run on the floor.

The Nicaraguan elections to be held next Sunday are taking place in a similar highly-charged atmosphere. The winner takes all but the loser might try to stop him leaving with the prize.

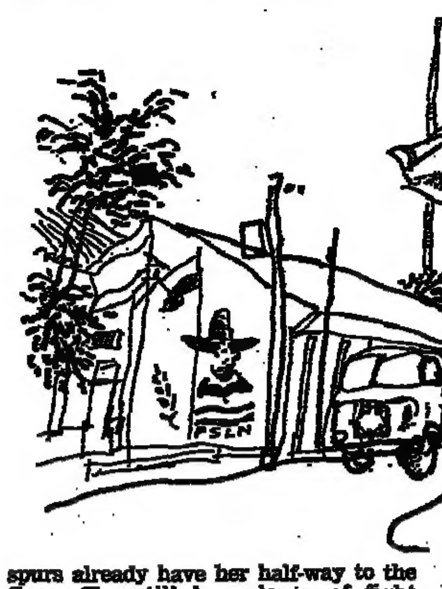
If the ruling left-wing Sandinista party (FSLN) loses, leaders of the main opposition alliance, UNO (National Opposition Union), fear that the FSLN-controlled army and police will rebel when the new Government takes office in April.

If the FSLN wins, Sandinista leaders are worried that the US-backed UNO will shout "fraud" and call UNO supporters onto the streets to provoke a melee of violence, and thereby obscure their defeat. More violence would presumably follow.

The 45-year-old President, Daniel Ortega, in power for almost 11 years, is running for re-election and six more years in office. A catchy and popular song written for the FSLN election campaign describes him as a spurred fighting cock, leading his nation forward against the threats of the US.

Inexhaustible, he has been strutting the length and breadth of the country for the past three months, frequently addressing two or three political rallies a day as well as attending to his presidential duties.

In contrast, his principal opponent, the 61-year-old Mrs Violeta Chamorro, editor of the opposition newspaper La Prensa, has a broken leg in a plaster cast and is campaigning on crutches, giving an impression that the cockerel's spurs already have her half-way to the floor. She still has plenty of fight though. Her favourite line is "I shall stew that cockerel in my soup."




The Sandinistas are out to prove that despite 10 years of office, eight years of war and a ruined economy, the popularity of their nationalist message can still win them an open election.

The well-oiled FSLN party machinery has reached out to every corner of the country. T-shirts, baseball hats, cigarette lighters, key-rings bearing the red-and-black FSLN colours and emblems have equipped a whole new generation of Nicaraguan voters.

On Valentine's Day the Sandinista youth organisation staged a "Kiss-In" and distributed red and black condoms.

People with telephones are receiving recorded messages from the president urging them to vote for the FSLN. Those with birthdays in the past month have been surprised to receive telegrams from Mr Ortega wishing them a happy birthday.

Like any Latin American party in power they are also guilty of using their privileged position to support the campaign. The notorious potholed streets are being repaired. Street lighting is appearing in previously gloomy neighbourhoods. Curbstones are shining bright yellow from a fresh coat of paint, the first in years. Free pencils and notebooks are being distributed to school children by the Ministry of Education under a presidential decree.

Countering this, the US Government has provided some $2m to the UNO campaign as well as funding for the training of polling station scrutineers and observers. But despite the finance, little can disguise the fact that UNO has run a lacklustre, poorly organised and badly focused campaign.

Mr Ramiro Gurdian, the head of Nicaragua's private sector umbrella organisation Cosep, blames it on political infighting within the 12-party alliance that comprises UNO. "It is an electoral alliance that will fall apart after the elections," he says.

Mr Jaime Bonilla, a close aide to UNO's vice-presidential candidate, Dr Virgilio Godoy, publicly punched the UNO campaign manager, Mr Antonio Lacayo, during a dispute over who was to speak first during a recent rally. The unedifying scene was duly broadcast on TV the same evening.

Surprisingly, the business sector has held back from giving heavy financial backing to UNO. Dr Godoy blames this on the US aid to their campaign: "It has been difficult to persuade people to give money for the campaign when they know so much is supposed to be coming from the US." Mr Gurdian of Cosep denies this but adds: "We are broke."

Insofar as campaigns and opinion polls give only clues to the possible outcome of any election, it would be premature to predict the winner in Nicaragua, especially in a country so politically polarised. Both sides are confident, but a sense of bravado rather than firm conviction of imminent victory seems to bolster morale in UNO headquarters.

In contrast, FSLN leaders are outwardly – you guessed it – cocksure.

# Police drive looters from Argentine supermarkets

By Gary Mead in Buenos Aires

LOOTING broke out early yesterday in Rosario, Argentina's third largest city, 200 miles from the capital, Buenos Aires.

Police frustrated more than 500 people, in scattered groups from slum districts, who tried to carry off food from supermarkets. Last May Rosario was the scene of mass lootings, which spread to other cities and left 14 dead and hundreds injured.

The Government is facing an economic slump in which hyper-inflation and worsening industrial recession are producing financial distortion and trade union protest against moves to loosen the heavily regulated economy.

In the search for greater political consensus there is growing pressure on Mr Eduardo Angeloz, governor of the province of Córdoba, to accept President Menem's offer to join his cabinet at a senior level. Mr Angeloz stood as presidential candidate for the Radical Party last May, but was defeated by a substantial margin.

However, there is little indication that, even were he to accept, Mr Angeloz's inclusion in the Government would either meet with universal approval or reduce growing socio-economic tension.

Argentina's currency, the austral, has collapsed and shows no signs of halting, although the central bank has tightened monetary policy to the point where interest rates have now soared beyond 300 per cent a month. Retail trade in foreign currency is illegal, but many high street shops are now refusing to accept payment in anything but US dollars. Inflation of 80 per cent a month is firmly in place; meat alone has risen by 168 per cent this month.

# Violent protests break out in five Venezuelan cities

By Joseph Mann in Caracas

UNITS of Venezuela's national guard and army were called in on Tuesday to help police put down violent disturbances that struck five cities, including the capital.

The worst problems occurred in the eastern cities of Barcelona and Puerto La Cruz, where crowds of rioters looted stores and burned vehicles.

No deaths have been reported so far, and figures on injuries and arrests are sketchy. But unofficial reports yesterday indicated that over 100 people were detained in various cities on Tuesday night.

The disturbances were the worst in Venezuela since February 27 last year, when around 300 people died in several days of rioting and looting that affected several cities.

The 1989 protests were caused by price increases in petrol and public transport that were part of a tough economic adjustment programme adopted by the Government of President Carlos Andrés Pérez.

Venezuela's economy has worsened considerably since last year's riots, having suffered unprecedented increases in inflation and unemployment.

It is not clear what caused this week's outbursts. Rioting in the two eastern cities was apparently sparked by student protests at a university in nearby Cumana. The protests were linked to the suspension of a university student leader by officials.

Also, on Monday and Tuesday, students in the university city of Merida, in the west, staged protests that became violent. On the same days, hooded youths burned two vehicles at the Central University in Caracas and harassed police with firearms and rocks.

## WORLD TRADE NEWS

# EC talks today on 'Buy Europe' procurement plan

By Lucy Kellaway in Brussels

EUROPEAN industry ministers will today discuss whether to include a strong Buy-Europe clause in a directive designed to open up the public procurement market within the EC. The issue is being seen as an important negotiating tactic in the present round of Gatt talks, where efforts are under way to scrap such protectionist measures altogether.

The issue has been the subject of hot debate among member states, and has held up progress in one of the most important parts of the single market legislation.

Five hours' discussion on the issue at the last EC council meeting failed to solve the problem, with member states divided along their traditional protectionist and less protectionist lines.

The proposal would give preference to goods containing more than 50 per cent EC content, and would allow buyers to ignore non-EC tenders so long as they were no more than 3 per cent cheaper than the best Community bid.

As the directive will not come into force until end-1992, when the outcome of the Gatt talks will be known, what is at issue is the kind of negotiating signal the EC wants to send to its partners in Gatt, which have strong national purchasing biases themselves. The existing draft says the barriers to third-country suppliers would be removed if the Gatt talks succeed.

Most member states now seem happy with the proposal, but West Germany, the Netherlands and to a lesser extent, the UK, would prefer no mention of any Buy-Europe measures, as a sign of good intent at the Gatt table. Such measures should only be introduced only if the talks fail, they argue.

Many of the other sticking points in the directive, which extends existing EC rules to sectors traditionally excluded, such as water, telecoms and energy, seem to have been resolved, and are likely to be rubber-stamped tomorrow.

The UK appears to have succeeded in getting offshore supplies exempt from the rules, but the Commission will probably reserve the right to change its mind later if the UK is not following a set of new guidelines.

Ministers are likely to grant the poorer countries in the EC extra time to comply with the directive, three years in the case of Spain and four for Greece and Portugal. The purchase of energy by utilities is also expected to be excluded, pending progress made on parallel measures to open up the energy market – which are proving difficult to shift.

# Caribbean banana war threatens to get worse

A DIPLOMATIC row in the Caribbean over the Dominican Republic and the European banana market is threatening to get worse, embarrassing Britain and Spain, Canute James reports from Kingston.

Banana-exporting countries in the English-speaking Caribbean, mainly the four Windward Islands, which produce two-thirds of Britain's consumption, are angered over a plan by the Dominican Republic to ship 104,000 tonnes of the fruit each year to the European Community.

The traditional producers, already worried about a loss of preferential access to the European market after 1992, claim the Dominican Republic has gone back on a pledge not to ship bananas to Europe.

In November last year, the Dominican Republic said it would not try to access the preferential market under the banana protocol of the Lomé Convention, a trade and aid pact between the EC and several developing countries which make up the African, Caribbean and Pacific (ACP) group.

In exchange, the Caribbean countries agreed they would not block the Dominican Republic's application to become a member of the ACP.

# US increases trade pressure on Japan

## Officials feel the time for muting frustrations is now past, Robert Thomson writes

WHEN US negotiators begin talking trade today at the third Structural Impediments Initiative (SII) meeting, the need to tread lightly around Japanese politics will have passed and the urge to indulge in criticism of Japan will be great.

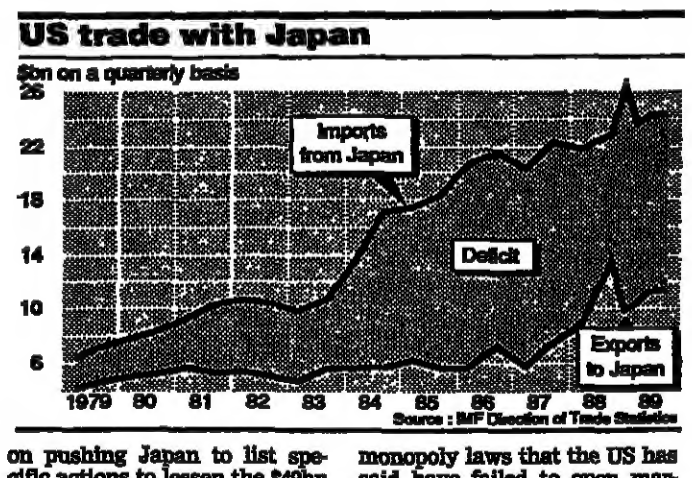
US officials reckon that they did the Liberal Democratic Party a favour by muting frustrations during the Japanese election campaign, and have indicated that the LDP win is the signal to pump up the volume once again.

One senior Japanese government official fears "irrational and inconsistent" criticisms, partly because the US government has been put under strain by developments in Eastern Europe, leaving insufficient officials to concentrate on the fine detail of trade with Japan.

While the last round of SII talks appeared to end amicably in Washington last November, US representatives then launched a series of attacks on Japanese trade policy, bewildering Japanese representatives, who presumed that the vaguely-defined talks had continued to roll along in an appropriately vague way.

The US emphasis over the next two days will be on detail, on pushing Japan to list specific actions to lessen the $49bn (£29bn) bilateral deficit, and to begin preparing an interim report on progress in the SII discussions, which were delayed for a month by the election campaign.

**US trade with Japan**




Officials at Japan's Foreign Ministry, which will be hosting the talks, suggest that the US demands are a contradiction in terms, and that drafting details about issues essentially macro-economic will be impossible.

However, the Foreign Ministry will try to appease the US.

Japan will be under pressure to prove it is tightening anti-monopoly laws that the US has said have failed to open markets to foreign companies, and to show evidence of reforms in the country's complex distribution system, which Washington has near the top of its list of "structural impediments" to trade.

The US is also pressing Japan to stimulate its economy, although fears of inflation, a growing labour shortage, and a general sense that the growth rate is already adequate will prompt reluctance from Japanese representatives.

Japanese officials will also be non-committal on US demands for a revision of a law restricting the opening of large-scale retail outlets.

During the election campaign, Mr Toshiki Kaifu, the prime minister, said the government wanted to "improve operational procedures" of the law but did not want an overhaul, which would be unpopular with small shopkeepers.

To prove that action is being taken on complaints, officials from the many Japanese ministries represented will produce next financial year's budget, which increases funds to Japan's Fair Trade Commission - the anti-monopoly body - and to a body monitoring land use regulations, which Washington also wants reformed.

The Japanese representatives also expect the US will argue that prices are unduly high in Japan, to the detriment of Japanese consumers.

So various ministries have prepared their own surveys showing that foreign exporters contribute to the cost by keeping prices high for reasons of prestige and profit.

Washington has emphasised that the SII talks are a two-way street. It has also pointed out that Japan is able to suggest "structural" changes in the United States which would be conducive to a smaller bilateral deficit.

But an official at Japan's Ministry of International trade and Industry (Miti) said the prospect of the Japanese Government actively pushing legislation through the US Congress is far from the minds of US trade representaives.

At previous SII talks, Japanese officials have criticised low US savings rates, the "short-term" outlook of many US companies, inadequacies in the US education system, and the general attitude of US companies to exporting.

US officials are expected to cite the words of President George Bush on the subjects of savings and education to prove that a restructuring is under way.

But an influential Japanese Foreign Ministry official said Tokyo does appear to be influencing US policies by pushing these issues higher on the agenda of the US departments involved in the SII talks, and the result could be useful changes in budget outlays.

While such Japanese influence is somewhat subtle, he concedes Tokyo is unable to adopt the brusque US style of demanding changes in legislation and of riding that legislation through the Japanese parliament.

# Bell Canada in Morocco phone deal

BELL Canada International of Montreal has won a third contract, valued at C$155m (£76m), to expand Morocco's telephone system, writes Bernard Simon in Toronto.

The new order involves supplying digital telephone switches, installing 156,000 lines, and providing operator work stations.

BCI is a wholly-owned subsidiary of the Canadian group BCE Inc. Switching equipment for the Moroccan deal will come from BCI's sister-company, Northern Telecom.

# Algeria orders

Algeria has awarded orders worth $415m to two US and two French companies, to revamp gas liquefaction plants in Arzew and Skikda, Francis Ghilès writes. The orders follow an accord between Italy and Algeria for a fourth gas pipeline, allowing exports of gas to Italy to rise from 12.5bn to 18.5bn cu metres a year.

Gaz de France and Sofregaz will work at Skikda, and Bechtel and M.W.Kellogg at Arzew. Algerian natural gas exports rose 3.5bn cu m to 29.6bn cu m (1988-89), with value up $0.2bn to $2.3bn.

# World machine-tool output up

TOTAL WORLD machine-tool output rose 10 per cent last year to $42bn (£24.7bn), reflecting higher factory investment in Europe, North America and the Far East, a survey out this week says, Nick Garnett writes.

US machine tool output, boosted by new "transplants" in North America, mainly by Japanese companies, rose almost 30 per cent to $3.3bn, allowing the US machine tool industry to regain fourth place in world rankings, lost the previous year to Italy.

Japan increased its output of metal-cutting and forming machines by a quarter measured in yen (12.5 per cent converted to US dollars), the American Machinist magazine says. Total Japanese output was $9.8bn. West Germany stayed the world's second largest producer, with $6.9bn sales, against $6.6bn in 1988. The Soviet Union took position Number Three.

**WORLD MACHINE TOOL PRODUCTION 1989**

| | $bn | % of total |
|---|---|---|
| Western Europe | 15.9 | 38 |
| Japan | 9.8 | 24 |
| Comecon | 8.2 | 20 |
| US | 3.3 | 8 |
| Others | 4.5 | 11 |

Source: American Machinist

Countries within Cecimo, the Western European machine tool manufacturing grouping, three-quarters of whose members are in the EC, stayed the biggest production bloc. They made up 38 per cent of world output in 1989, a proportion unchanged for three years.

The pattern of trade among leading machine tool production and consuming nations continued to show striking differences. Switzerland and East Germany both exported 88 per cent by value of their machine tool output. Other aggressive exporters included Taiwan, (66 per cent of production), West Germany (63 per cent) and Italy (50 per cent). Japan, where domestic consumption grew to $6.5bn, exported 38 per cent of machine tool output and the US just 29 per cent.

The world's biggest machine tool producers are its biggest importers, except Japan. Top 10 producers' imports, as a percentage of apparent consumption, range from 35 per cent (West Germany and Italy) to over 60 per cent (Switzerland, France and East Germany).

# UK push for Malaysia orders

SOME of Britain's largest construction companies are bidding for major Malaysian contracts after the end of Kuala Lumpur's "Buy British Last" policy and the recent improvement in its economy, Andrew Taylor writes.

Taylor Woodrow, the UK contractor which has worked in Malaysia since 1964, said it had won an order worth about £50m to build toll facilities on Malaysia's £1bn North-South Expressway, to run for almost 850km from Thailand to the southern tip of Malaysia, near Singapore.

The road, to be owned and operated by United Engineers Malaysia, will be one of the world's biggest privately-financed roads. Taylor Woodrow has also been appointed construction management adviser to Pengurusan Lebuhraya Berhad, the project manager. The only other international companies to win contracts for building the road have been Korean and Japanese.

French and Italian companies are believed to have been deterred by contract conditions which require successful tenderers to take some equity in the project, nine-tenths of it currently financed mostly through debt.

Mr Bruce Russell, a director of Taylor Woodrow International said: "There are opportunities for international contractors in Malaysia. The market had been dominated by Japanese contractors able to use their financial muscle to fund as well as build projects. But the Malay authorities are nervous about the high level of yen debt.

"So far, it seems to have been British companies which have been seeking contracts. Opportunities for work have risen as Malaysia's economy has improved."

Taylor Woodrow, in partnership with Trafalgar House, the UK construction, property, shipping and hotels group, is in line to win up to £300m-worth of civil engineering works if a £1bn defence contract with British Aerospace and GEC goes ahead.

Taylor Woodrow, the only big UK contractor to have consistently worked in Malaysia, recently finished an extension to Subang International Airport, Kuala Lumpur, where it also built the main terminal.

Other British contractors seeking work in Malaysia include John Laing, expected to win part of a big hospital building programme; Trafalgar House and Balfour Beatty, thought to be bidding to build a dam at Sungai Pagoh in west Malaysia supported by British aid, and Costain, pursuing a £25m contract for an airport at Sibiu, East Malaysia.

Projects likely to attract UK interest include a £50m upgrading of Malaysia's railways, and plans for another two airports.

FEBRUARY 21

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£13m claim against Savory Milln

# Eagle Trust to sue UK arm of Swiss Bank Corp

By Philip Coggan

EAGLE TRUST, the UK mini-conglomerate which is being investigated by the Serious Fraud Office, is suing the UK broking arm of Swiss Bank Corporation for £13.5m.

Mr David James, Eagle's chairman, says the company may follow the writ with a range of litigation against other groups and individuals whom he feels caused Eagle's difficulties, which resulted in losses of £64m.

The current claim dates back to a rights issue which Eagle held in the autumn of 1987 to fund the purchase of Samuelson, a film and television services company. The issue flopped because of the stock market crash and ended up with the underwriters.

Mr John Ferriday, Eagle's former chairman, has claimed in a newspaper interview that Eagle loans were used to bail out sub-underwriters. *In other words, the company financed the purchase of its own shares.* A warrant has been issued for the arrest of Mr Ferriday on a charge of theft of £13.5m from Eagle.

The current management of Eagle claims in the writ that SBC's broking arm, then called Savory Milln, received £13.5m in respect of sub-underwriting commitments which the broker "knew, or ought to have known, belonged to Eagle Trust."

SBC Securities said yesterday that it denied the allegation and that the proceedings would be vigorously defended. An earlier investigation by the broker found that it had received three payments totalling £13.5m following the issue. All payments were paid through Hambros Bank (Jersey) and on the instructions, it says, of Anser General Investments.

Anser was listed on Eagle's share register at the same address as Ryco Trust, a Jersey company which provided administrative and nominee services for Eagle. Ryco has denied any wrongdoing in connection with Eagle and said that it acted at all times in accordance with instructions from the board of the company.

SBC said that it had believed the payments were made to satisfy the underwriting commitments of Mr Ferriday and Earnshaw Haes, a stockbroker. The latter firm, now part of TSB, has alleged that a former associate of the company, Mr Michael Barnard, acted as sub-underwriter in a personal capacity. Mr Barnard, through his solicitor, refused to comment yesterday.

● THE High Court will deliver its judgment late today on the appeal being brought by a group of banks in the Hammersmith and Fulham swaps case. The banks are appealing against a November ruling that placed activity in the booming financial swaps market outside *of the reach of all local authorities.*

If the appeal succeeds in overturning the initial ruling, Hammersmith and Fulham could have to pay some £300m-£500m in outstanding liabilities on their interest rate swaps activity.

FINANCIAL TIMES REPORTERS ASSESS BUSINESS IMPLICATIONS OF BRITISH PLANS TO EASE SANCTIONS

# South African opportunities raise little interest

BARELY a flicker of interest has been aroused among British industrialists and businesses in the Government's decision to lift the voluntary ban on new investment in South Africa.

They remain more concerned about political and economic conditions in South Africa than with sanctions which are seen largely as a political gesture.

The unilateral decision, which has angered Britain's partners in the European Community, follows the release after 26 years in jail of Mr Nelson Mandela, leader of the African National Congress.

The sanctions on investment were introduced by the EC in October 1986. They cover direct investment but not financial transactions and bank lending in support of normal trading. Also excluded are investments in training, health and social sectors.

Britain is the largest foreign investor in South Africa. About 200 British companies still have operations there. In 1986, UK companies accounted for more than one third of foreign investment. Since the voluntary ban on new investments about a fifth of British companies have pulled out of the country. But as more US companies have pulled out, the British share of foreign investment has grown to about 40 per cent.

South Africa is also an important market for British exporters. In 1988 the UK's exports were more than £1bn for the first time since 1985. It is the UK's fourth largest export market outside Western Europe and North America.

Demonstrators oppose investment in South Africa

According to the South African Foundation, a London lobby group for South African companies, the investment ban has hurt indigenous companies, limiting their access to Western technology *and isolating* them from potential international alliances. Even so the foundation concluded: "It is difficult to see a lot of British companies piling into South Africa because the investment sanction is lifted."

Business investment has mainly been hit by the political instability in the country, the distortions in the economy created by apartheid and powerful domestic political and consumer campaigns.

The South Africa Foundation said: "It will probably require the establishment of a transitional government and moves towards democratic elections before business will have confidence that the political situation is about to stabilise."

Companies in consumer-related sectors such as Barclays Bank which have pulled out of South Africa have no plans to invest there again.

The Anti-Apartheid movement said: "Companies like Barclays know that if they tried to go back into South Africa *we would come down on them* like a ton of bricks. They can still be hurt by consumer boycotts in the UK."

Yesterday a Barclays spokeswoman said: "We disinvested in 1986 and there is no reason why that should change. That's the end of the story as far as Barclays is concerned."

Most banks seemed to feel it was too early to make any forecasts about the political situation there. With about $4bn outstanding in rescheduled loans, *the banks are more concerned* to reduce their exposure.

The apartheid regime has also created distortions in the economy's development. The group areas act and poor black education have created endemic skill shortages. The black consumer market is relatively under-developed.

The British Industry Committee on South Africa, a lobby group for British companies in South Africa, said it was unlikely that investment would increase significantly until there was enough political stability to allow these economic distortions to be ironed out.

Imperial Chemical Industries, Britain's largest chemical manufacturer has a wholly owned subsidiary in South Africa and a minority stake in an indigenous chemicals company. Any investment would only follow far reaching political reforms. But the company's focus is mainly on the Asia-Pacific market, the EC market with the approach of 1992 and the opening markets in Eastern Europe.

Investment opportunities elsewhere in the world have been a factor in other sectors. The two London-based oil majors - British Petroleum and Shell - said yesterday the UK Government's decision was irrelevant to their attitudes to investment in South Africa.

Both companies have operations in South Africa. - Shell's contributes about 1 per cent of the group's after-tax profits, *while BP's accounts for* about 1 per cent of group assets. But both the subsidiaries have been self-financing for a number of years.

As an Anglo-Dutch company, Shell said it would pay more attention to the EC's position than to that of the British Government.

*BP said it would consider* fresh investment in South Africa only if there was a settlement acceptable to the broad international community. This reflects the fact that BP has worldwide operations, including 49 *per cent of its assets in the US.*

In the mining sector, the RTZ Corporation, the world's largest mining company which has about 4 per cent of its assets in South Africa following the recent acquisition of British Petroleum's mining and minerals interests, said the UK Government's decision would have no immediate impact on its operations because mining projects have long lead times.

Insurance companies shared the view of other business and industrial sectors about the importance of political conditions. Insurance groups were almost unanimous yesterday in saying that the lifting of the ban did not balance the risks stemming from continuing uncertainty about the political future of South Africa.

At Sun Alliance Mr Geoffrey Browne, chief investment manager, said that he was very dubious about new investment given South Africa's *current* political instability. Mr Michael Heath, marketing director of Eagle Star, a subsidiary of BAT Industries, said that his company did own 58 per cent of South African Eagle, with net written premium of £145m last year, but this is a mature business requiring no new investment.

# Policy change is seen in Johannesburg as largely symbolic

THE South African business community yesterday welcomed Britain's decision to lift its ban on investment in the Republic but saw the move as largely symbolic, writes Michael Holman in Johannesburg.

Brokers said the Johannesburg stock market, preoccupied by events in Tokyo and New York, had already discounted the UK action. The market index dropped to 3,167 from Tuesday's close of 3,283. In spite of the stronger bullion price the gold index slipped to 1,996 from 2,013.

One businessman said any possible benefits of Mrs Thatcher's decision would be offset by the unease prompted locally and internationally by the renewed commitment of Mr Mandela to nationalisation of banks, mines and other important industries.

"The ban has not meant much," commented a local banker. "If a company really wanted to invest here there were ways of readily circumventing the ban. It all comes back to two factors: political stability and the level of profit to be made in South Africa."

The most immediate benefit, suggested an official for the country's Reserve Bank (Central Bank), was indirect.

The move could encourage investment in equities, which could lead to a strengthening of the financial rand — South Africa's investment currency which trades at a discount to the commercial rand.

The official also suggested that the British Government's decision could have other important but less tangible results.

"We hope it will lead to an expansion of trade. Anything that helps reassure the international business community and the more the South African situation becomes legitimised, the easier trade becomes."

An official for the British Embassy said that two UK trade missions were already due to visit South Africa this year. No new missions were expected to take place as a result of the lifting of the ban.

Assessing the effect of the UK measure — and other Western government sanctions is difficult.

The single most costly sanction is the oil embargo. This has forced Pretoria to pay a high premium on oil imports, to develop marginal offshore gas fields and to build uneconomic oil-from-coal plants.

But local economists point out that the other trade embargoes prompted a more aggressive export promotion strategy which has opened up new markets.

# Developer calls in the receivers

By Andrew Taylor, Construction Correspondent

RECEIVERS have been called in to at least four developments being undertaken by Declan Kelly which has become the latest British developer to be hit by the collapse of the property market.

The privately owned group sought the permission of Halifax Building Society, which is funding the four developments, before appointing receivers from accountants Ernst & Young.

The large rise in interest rates which has pushed up the cost of home loans has hit residential developers hard.

It was not clear last night whether Declan Kelly, established in 1975 by its chairman Mr Declan Kelly, was experiencing problems on any other of its more than 40 development sites.

The group's most recent results, covering the first six months of 1989 showed a pre-tax profit of £5.1m on turnover of £48.3m.

Figures published yesterday by the Environment Department showed that private housing orders received by construction companies in the final three months of last year were 38 per cent lower than during the corresponding period 12 months earlier. Total construction orders over the same period fell by 13 per cent.

Trencherwood fall, Page 33





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| 9681-10688 | 12479-12578 | 12679-17500 | 18434-18634 |
| 18935-18958 | 19001-21186 | 21201-25000 | 25036-25090 |
| 25127-26240 | | | |

## UK NEWS

Eurotunnel confirms new Channel project manager

# Tunnel passengers face on-board customs checks

By Kevin Brown, Transport Correspondent

MOST Customs and Immigration checks on Channel Tunnel passengers will be carried out on the trains, the Government announced yesterday.

The exception will be Customs checks on passengers arriving in London from Paris and Brussels, who will have to pass through an airport-style Customs hall at Waterloo station.

This decision represents a victory for Mr Philip Nash, the Commissioner of Customs and Excise, who campaigned strongly for the fullest possible Customs checks at Waterloo.

The Government has accepted Mr Nash's argument that on-board checks would require more than 200 extra Customs staff, and would be more inconvenient for passengers.

Officials said Customs checks at Waterloo would mean no delays for most passengers, who would simply walk through the green "nothing to declare" channel.

However, the Government has ruled that Customs checks on trains terminating beyond London should be carried out on board, because of the smaller numbers forecast and the extra time which will be available.

The Home Office, which is responsible for Immigration controls, has agreed that all passport checks will be carried out on trains, whatever the destination, with the exception of sleeper services.

Passengers travelling with their vehicles on the Eurotunnel shuttle trains between the tunnel terminals at Coquelles and Cheriton will pass through both Customs and Immigration.

Officials said Customs checks at Coquelles would be "highly selective" and would rely on intelligence to target suspects. Most vehicles would pass through a "freeway" area without stopping.

EUROTUNNEL, owners of Channel tunnel, yesterday confirmed that Mr John Neerhout Junior, executive vice president of Bechtel, the large US construction group will take over the job of managing the troubled construction contract for the project, writes Andrew Taylor.

Mr Neerhout is pictured above between Mr Alastair Morton, chief executive, left; and Mr Andre Benard, French chairman, on the right. He replaces Mr Tony Ridley, the former chairman of London Underground, who previously managed the construction contract.

Mr Neerhout's appointment completes a management reshuffle which has included the appointment of Mr Alastair Morton as Eurotunnel's chief executive announced last week.

Working under him at Eurotunnel will be Mr Alistair Fleming, 45, formerly of BP, who has wide experience managing oil developments. Mr Keith Bernard, 51, who was general manager of San Francisco's Bay area Rapid Transit System will be responsible for the development of the transport system for the project.

He will be joined by Mr Andre Pascal, 47, Directeur des Etudes de l'Exploitation. He was described by Mr Morton: "As perhaps the most experienced engineer in the Paris Metro.

# Trident programme may need extra £10m

STAFF SHORTAGES have forced the Trident warhead programme behind schedule, and an extra £10m may be needed if it is to be finished on time, the Commons defence committee was told yesterday.

Mr John Mabberley, deputy controller of the project, giving evidence to the committee, said that he thought the project's problems required the use of more contracted private labour.

He said: "We are losing time in some areas, primarily due to staff shortages. We have not had the manpower available to make the start. It is causing us concern that we will not reach our target, and it is that concern which has led us directly to some of the recommendations we have made, including contractualisation."

Dr Tom McLean, Director of the Atomic Weapons Establishment, added that the problem might not have arisen if greater flexibility in setting wages had been allowed from the outset. He did not think that, at this stage, greater wage flexibility would be a substitute for employing contract labour.

There was confusion over who had taken the decision to use contract labour, which committee members claimed was costing extra taxpayers' money. When Mr Michael Mates, chairman of the committee, asked how much extra money the contract labour had cost, Mr Mabberley estimated that the figure was around £10m, but added: "You need to know how much both options cost us. We do not know how much it would cost us to pay the staff that we have at Aldermaston to do the work."

Union officials from the AWE claimed that extra wage flexibility would have retained more staff, and that standards of safety for contracted staff were lower.

Mr Richard Keep, Transport and General Workers Union branch secretary for the AWE Aldermaston, said: "If you look at the accidents which have taken place in terms of contractors working at AWE and employees, you will see a great difference."

# Talks raise hopes for end to 23-week ambulance dispute

By Diane Summers, Labour Staff

BOTH SIDES in the long-running UK ambulance dispute meet today for talks at the Whitley Council, the joint union-management negotiating body on pay, as a possible end to the 23-week dispute is in sight.

Yesterday Department of Health officials met to look at the financial implications of a new offer hammered out at five hours of talks between unions and management at Acas, the conciliation service, on Tuesday night.

However, even if the package of proposals to be put forward today is agreed by the staff side, unions will still have to ballot their members on acceptance. The five unions involved would make separate arrangements for balloting – a process that could take about three weeks.

Mr Roger Poole, chief trade union negotiator, was yesterday busy with preliminary talks before a pay claim is submitted for hospital ancillary workers. A joint management union working party has been discussing the possibility of restructuring support staff jobs.

Mr Vernon Jolliffe, secretary of the Association of Chief Ambulance Officers, yesterday warned of a "catastrophic" effect on the service if talks break down. "Having seen hopes built up, it would be catastrophic if the next few days failed to deliver," he said.

"My fear is that more and more staff will go on strike or even leave the service unless there is a quick settlement," he added.

On Merseyside, where ambulance workers voted narrowly for a strike, there will be a meeting this evening to decide whether to go ahead with action. Clearly the outcome of the Whitley Council talks will influence the result.

● Compensation given by the Government to employees suffering from dust-related diseases such as pneumoconiosis is being increased by 6 per cent.

# BNFL denies giving advice on children

By David Fishlock, Science Editor

BRITISH Nuclear Fuels denied last night that it would be advising its nuclear reprocessing workers not to have children, following suggestions of a link between radiation exposure and the next generation.

But the company said there could be cases where this was the best course for a worker, whose fears were too great to be dispelled by counselling.

Mr Harold Bolter, BNFL's company secretary, said the company would counsel any Sellafield employees about the findings of Professor Martin Gardner's recent report suggesting a genetic link between radiation and leukaemia.

The counselling would explain what Prof Gardner, director of the Medical Research Council's Environmental Epidemiology Unit, believed he had discovered, and the magnitude of the risk to the worker and his family.

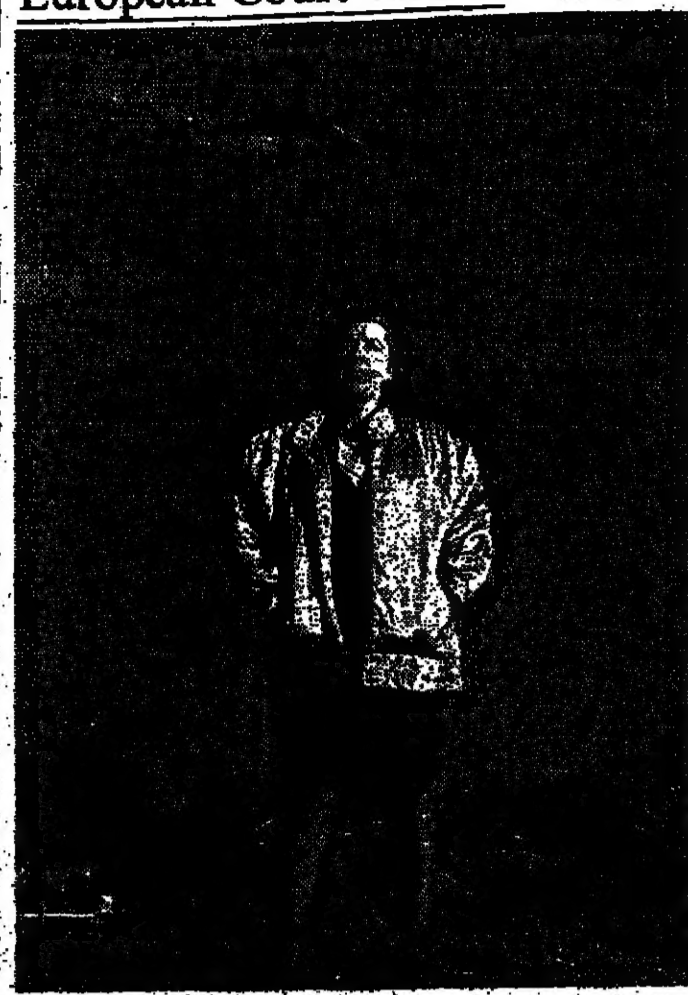
The company would also give sympathetic consideration to requests from workers who wanted to change jobs, he said.

At a press conference yesterday at BNFL's Sellafield factory in Cumbria, Dr Roger Berry, the company's health and safety director, in the company of Prof Gardner, said worried workers who wanted individual counselling could get it, and the advice could be not to have children.

"It is not something that I hope would be widespread advice", Dr. Berry said.

The company believes that nearly 2,000 Sellafield workers will have received radiation doses of the magnitude of those linked by Prof Gardner with 10 childhood cases of leukaemia in West Cumbria.

European Court verdict



Mrs Rayner: at the farm where aircraft fly over every 90-seconds

# Farmer loses battle against aircraft noise

A FARMER'S claim that the noise of aircraft flying over his home near London's Heathrow Airport was a breach of the European Human Rights Convention failed yesterday.

A seven-judge panel at the European Court of Human Rights in Strasbourg said the Government had done all it could to limit disturbance to residents living under the flight paths.

Mr Michael Rayner, who farms at Colnbrook, Buckinghamshire, and whose home is just over a mile from the airport, directly in line with the northern runway, said aircraft flew over his home at 90-second intervals.

Noise levels there had been recorded well above the level recognised by the Government as being acceptable. He argued that the Government was in breach of the convention's demands for "respect for private life" and an "effective" national legal remedy for violations. His campaign was supported by the Federation of Heathrow Anti Noise Groups (Fhang), which has spent an estimated £20,000 on the case.

Noise abatement measures were in force at Heathrow, said the judges. They said about 6,500 other residents near Heathrow were exposed to noise levels equal to or greater than that suffered by Mr Rayner.

Mr Rayner launched his case in December 1980 after discovering that he was ineligible for compensation for disturbance. He has lived at his farm since 1960 and the property has been in the family for 300 years.

# London homeless hits 100,000, says report

By Emma Tucker

PRESSURE on the British Government to give higher priority to the problems of homelessness increased yesterday with the publication of two reports claiming that the problem had reached crisis point.

A report from the London Housing Unit said voluntary groups and police estimated that there were at least 100,000 homeless people in London.

Representatives of the churches, the police, the Salvation Army and residents under the auspices of the West End/Central Police/Community Consultative Group said expressing anxiety about the homeless was not enough.

The reports coincided with the announcement by Mr Michael Spicer, the Housing Minister, that a Government-funded advice service was to be set up to help prevent and relieve homelessness.

But the consultative group said that there was a limit to how far voluntary agencies could cope with the homeless problem, because they lacked both funds and personnel.

The report said: "We cannot wave a magic wand and make the homeless disappear."

Mrs Grace Cook, the group's chairwoman, called for the establishment of centres where alcoholic homeless people could be directed by the police to break the cycle of arrest, police caution or court appearance, and eventual return to the streets.

The report urged changes in the benefit system to allow 16 and 17 year-olds who were estranged from their parents to claim income support.

# UK university science equipment 'worn out'

By David Fishlock, Science Editor

MUCH of the instrumentation used by British university scientists is worn out or out-of-date, an inventory of academic research equipment by the Department of Education and Science has disclosed.

The survey estimates the replacement value of this inventory at £760m but found one major item in seven to be obsolescent, and 37 per cent of the inventory to be over 16 years old.

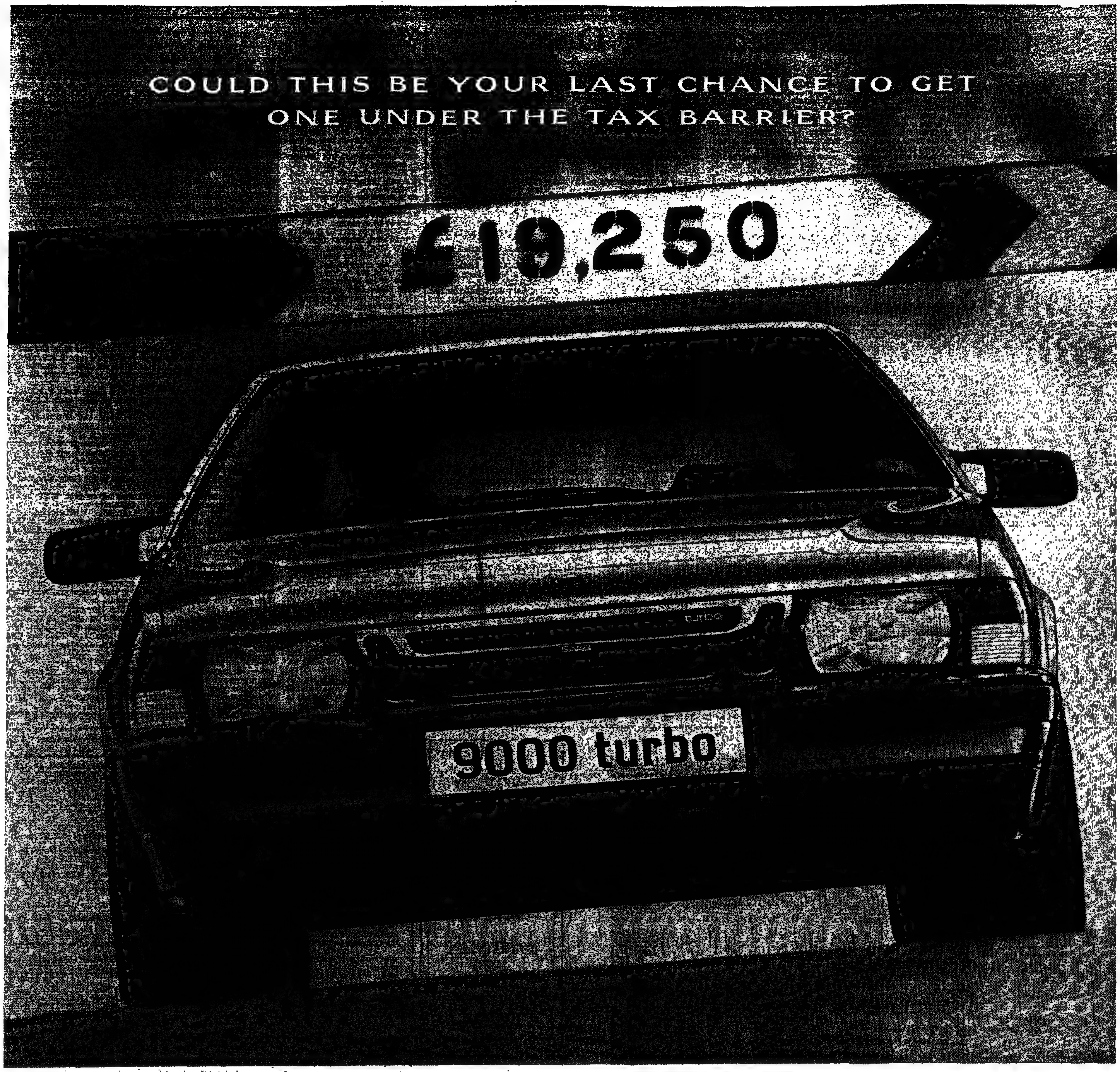
It identifies a need for new instruments valued at £453m.

The study, commissioned by the Advisory Board for the Research Councils (ABRC), which advises the department on research policy, surveyed instruments other than computers with a replacement cost between £10,000-£1m, in 59 British universities and five polytechnics.

It identifies 16,407 instruments averaging £44,000 in replacement value, with centrifuges, microscopes and liquid chromatographs the most common.

It found the replacement cost to be almost double the original cost, and also other evidence supporting the notion that the cost of scientific instrumentation rises at a greater rate than inflation – the so-called "sophistication factor" – if research is to remain in the forefront.

Professor Sir David Phillips, chairman of the ABRC, says that the results "point clearly to certain deficiencies in the present provision of research equipment which cannot be rectified without the injection of additional monies."

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**MANAGEMENT: Marketing and Advertising**

# Why Cesar has disposed of Mr Dog

Brands are the most powerful and sustainable element of competitive advantage in consumer goods. They reflect both a set of images and concepts burned into consumers' minds and tangible product/service differences.

On this basis, according to a marketing guide published under the CBI Initiative 1992,* we can look forward in the European single market to a period of intensive innovation – new products, better quality control, faster distribution – as companies seek to sustain the power and cash-generating capacity of existing brands.

Throughout the 1990s, the guide suggests, there will be two variants of brand-building: rationalisation to create an integrated European "value chain" behind existing national brands; and new pan-European brands in industries such as fast food where new segments have been identified. "The first is the earlier option. The second represents the longer-term growth possibility."

Both have already been seized with determined single-mindedness by Mars, the US confectionery and petfoods group, as a report today from KAE Development† illustrates.

Based on interviews with retailers in the UK, West Germany and France, the report puts Mars at the top of the list for new product development and applauds its overall European brand strategy.

Mars is sacrificing past investment in national brand names to give its products more acceptable names for the European market. Its subsidiary Pedigree Petfoods has changed Mr Dog to Cesar. The Twix chocolate bar, a £75m brand in the UK, may become Raider – as it is known in the rest of Europe. Marathon bars, brand value £35m, already bear the line "Internationally known as Snickers."

The company is prepared to discontinue a successful domestic range to introduce a new international range – replacing Treets with the "adult Smartie" product, M & M's, a pan-European brand which UK retailers voted best new confectionery product.

But its approach to the European market is exemplified by its development of the Mars ice cream bar.

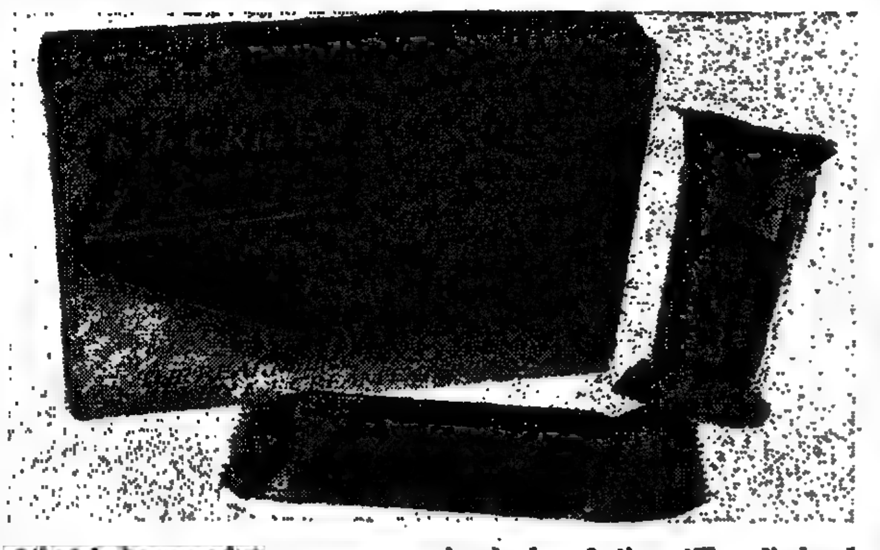
There are lessons to be learned from it, KAE says. "There is scope for more radical new products in the grocery market and, unless more UK suppliers recognise this, they will tend to come from the US, the Far East and from the Continent in the 1990s. The gap between successful and unsuccessful companies in terms of product development is growing."

**Marketing: Communicating with the Consumer, £12.95, D'Arcy Masius Benton & Bowles, 175 St John Street, London EC1V 4LL.*

*†New Products in Grocers, 1990, £480, KAE Development, 19 Buckingham Street, London WC2N 6EF.*

# How Mars took ice-cream in hand

**By Philip Rawstorne**



Mars signalled its intention to move into new markets with the acquisition in 1986 of Dove International, a Chicago-based manufacturer of high-priced ice-cream.

The venture was seen by Mars as a potential way into the frozen food sector, but despite custom-built plant and the use of latest technology it fell short of expectations.

"The problem," says the KAE report, "was that Mars, used to huge volumes and significant market shares, was operating in a niche market where 1 per cent was considered a success."

Though Mars, and its subsidiary, Pedigree Petfoods, have regularly featured in KAE's list of the most successful new product developers over the past 20 years, there was a growing impression, expressed by Fortune magazine in 1988, that the group was "trapped in maturing businesses and unable to grow or buy new ones very successfully."

This view was reinforced when Hershey took over Cadbury's US interests and leap-frogged over Mars to become the top US confectionery company; and when Nestlé acquired Rowntree-Mackintosh to get on level terms with Mars in the European market, says KAE.

But in 1986, Mars UK had begun work on the development of an ice-cream bar which was to carry its brand into new markets.

On the face of it, the UK ice-cream market – worth some £590m in total last year – does not appear to offer great opportunities. Since 1984, the volume increase in the take-home sector has been almost totally offset by the decline in the "impulse-buying, in-hand" sector.

Value of the in-hand market has barely kept pace with inflation over the past five years; and though the take-home market has increased by 40 per cent in value, it has been exploited both by supermarket own labels and niche specialists.

Unilever's Walls is the dominant brand, claiming 42 per cent of the market by value, with Allied-Lyons' Lyons Maid, accounting for 10.4 per cent. But own label takes 28.6 per cent of the total and, with 42.5 per cent, the major share of the take-home market.

Mars believed that in this situation "the opportunity to develop consumer loyalty for a strong brand was enormous" – especially for a high-quality ice-cream set alongside the mass-market products of Walls and Lyons Maid.

That opportunity would be further enlarged if the brand could be launched across the whole of West Europe.

The criteria established from the outset for developing this new product under the Mars brand were that:

- The ice-cream bar should retain the familiar taste of the Mars chocolate bar;
- Only real dairy ice-cream should be used in order to conform to European standards; and
- Quality should be maintained by using milk chocolate to coat the bar.

Development took two years and involved perfecting still undisclosed processes for softening the same milk chocolate and caramel used in the confectionery so that they would withstand the temperatures required for ice-cream manufacture.

By May 1988, the product had passed rigorous quality control and internal consumer panel tests and was ready for test marketing.

The response from both consumers and the trade was so enthusiastic that Mars decided in November 1988, to invest £20m in the construction of Europe's largest ice-cream factory at Steinbourg in France.

In line with its pan-European strategy, Mars did not launch the product until the factory was producing for all target markets. That happened in April last year when the ice-cream bar was rolled out in the UK and across 15 other European countries.

For the UK launch, Mars spent a relatively modest £500,000 on television and press advertising though a further substantial sum was poured into a nationwide poster campaign.

The thrust of the campaign so far has been to persuade consumers that the ice-cream bar is as good a product as its confectionery parent. The quality of the product had to be stressed to justify the premium price – around £2 for a pack of four bars.

"Mars has taken the risk that the public would pay for a very good product and it seems to have come off so far," says KAE.

It adds: "The balance between quality and price will remain one of the key questions for new products in the 1990s and our vote is, in most cases, towards higher quality and price – as Mars has achieved."

Marketing down to the lowest possible price may be right for certain commodity sectors, it says. "But in general we are convinced that this is a road to failure. If consumers want to save money, they will tend to buy less, but better."

Mars is understood to have encountered some distribution problems – hardly surprising, says KAE, given that the pattern for in-hand ice-cream sales favours small outlets in which existing brands have established a presence by helping with merchandising and displays.

This in-built strength of Walls, in particular, has prompted Mars to concentrate on the multi-pack, take-home market. "The multiple retailers may negotiate more strongly, but they can be serviced more easily once approval has been established."

Mars already claims 18 per cent of the multi-pack, in-hand sector; and in October last year began selling single bars through frozen food retailers.

KAE concludes: "Mars has transferred its brand from confectionery into ice-cream, and has retained the brand's integrity. We now expect Mars to support the new product heavily and consistently if it is to be a real stayer in the market place."

## Video retailing

# A place to take the family

**Maggie Urry on the introduction of US-style Homerun shops**

Homerun staff can take a video home free every night

Alan Gaynor believes that video shops have great potential. Not only are margins high, but video is one of the few growth areas in UK retailing at the moment. But Gaynor – formerly of W H Smith's Do It All do-it-yourself chain, and the man brought in to sort out Underwoods, the chemists, only to see the chain sold over his head to Boots last year – appreciates that there are problems to be overcome.

Many shops portray a sleazy image and suggest that the "dirty mac" customer is more welcome than the family. Also, the video retail format is still mainly in the "corner shop" stage of its evolution. While such shops offer convenience, they do not necessarily carry a large selection.

One group attempting to overcome both these problems by going straight to the "superstore" category and presenting itself as a "family" store is the brainchild of Alan Gaynor.

Called Homerun, it is unashamedly based on an American format. Backed by the personal money of Gary Klesch, the American who runs Quadrex, the City dealing firm, Gaynor set up Homerun after discovering that although 65 per cent of UK households have a video recorder, only a quarter rent videos.

Gaynor felt that people were put off by the existing video shops, and planned Homerun to avoid the pitfalls he saw in the others. The format has been designed with video renters' complaints in mind.

Although some shops are charging £20 a year or more, Renters at Homerun do not pay a membership fee – the shops are open from 10 am to 10 pm, seven days a week, and outside those hours renters can return videos through a letterbox. Fifty copies of each of the top titles are held in each store so that people wanting to rent the latest films released on video should not have to wait to see them – that requires a big investment since each copy of a top title film costs around £50, making £2,500 of stock for each top title per shop.

Customers can pick up the actual tape they want from the shelf rather than having to take the box to the counter.

As in many shops, the stock is divided into sections such as "drama", "sport", "comedy", "adventure", and "romance". Gaynor also wants the staff to become knowledgeable about the stock and each employee is allowed to take a different video home free every night – so long as it is not always Rambo – so that they can advise customers on films.

Films are rented for two nights, not one, at £3 for a top title, £2.50 for a "library" title and £1.50 for a children's film; there are 6,300 titles in stock, including 1,600 children's films. The films are classified into universal, PG and 18 categories; no "restricted 18" titles are stocked. There is a play area where children can watch videos such as Thomas the Tank Engine, while rolling on cushions.

The shops also sell videos; although this is not nearly as profitable as renting, it is a faster growing market. People can buy confectionery to munch while watching a video; Gaynor is considering installing pop-corn machines.

Every film has an individual number in the computer so that each time it is rented it is logged out and checked back. This gives valuable information about the popularity of a particular title, tells when a film starts to make a profit, and when a tape is reaching the end of its useful life.

Each customer's rental record is available from the computer, so that eventually marketing efforts could be directed at particular customers – for example, if someone has a propensity to rent soppy romances they can be told when new titles in the section appear. And if a customer repeatedly brings back films in a damaged state, the computer will alert staff.

The first Homerun shop opened at the beginning of December last year, and four are open now in Catford, south-east London, Ealing and Harrow in west London, and Luton, north of London. After a pause for breath and to assess experience so far, the plan is to have 20 by the end of Homerun's next financial year in March 1991. Thereafter the target is 150 shops in five years.

The shops have about 5,000 sq ft of sales area, far larger than the average corner shop or even the shops run by chains such as Our Price Video, part of W H Smith.

The turnover generated has to be large to pay for such a size. Homerun is aiming at areas with a substantial population in the catchment area – those within 8 minutes, whether on foot or by car, of the store.

Brian Mattingley, the finance director, reckons a top title needs to be rented a total of 20 times to pay for the cost of buying it and to cover the overheads of stocking it. For a library title, for which Homerun might pay £7, the total number of rentals before moving into a true profit is seven times.

The four existing shops are located in areas of differing social types; when joining renters have to produce proof of identity, showing their home address. While in Catford social security books were proffered, in Harrow credit cards were more popular. Even so there have been some surprises, Gaynor says; the film of Carmen, the opera, has proved particularly popular in Catford.



**LEGAL NOTICES**

**ROYAL LIFE FUND MANAGEMENT LIMITED**
**Company No. 1609627**

Pursuant to Section 175 of the Companies Act 1985, notice is hereby given that:

At an Extraordinary General Meeting of the above Company held at Regency House, 101 Hagley Road, Edgbaston, Birmingham B16 8LA on 20th February 1990, a Special Resolution was passed authorising the payment of £3,000,000 out of the capital of the Company in respect of the redemption by the Company of £3,000,000 shares of £1.00 each held by Royal Life Holdings Limited. The amount of the permissible capital payment was £3,000,000.

The statutory declaration and auditor's report are available for inspection up to and including 27th March 1990, at the registered office of the Company, by any member or creditor of the Company during normal business hours, without charge.

Any creditor of the Company may apply to the High Court pursuant to Section 176 of the Companies Act 1985 within five weeks immediately following the date of the aforementioned Special Resolution, for an Order prohibiting the payment.

Registered Office: New Hall Place, Old Hall Street, Liverpool L69 3HS

BROMPTON HOLDINGS PLC

A Petition was presented to the Court of Session on Wednesday 14 February 1990 by Brompton Holdings PLC, a Company incorporated under the Companies Acts and having its Registered Office at ... for confirmation of reduction of share premium account.

The Court by Interlocutor dated 16 February 1990 ordered intimation and advertisement of the Petition ...

Of all which intimation is hereby made.

A C Bennett & Robertsons, W.S. Solicitors for the Petitioners 16 Walker Street, Edinburgh, EH3 7NN

In the matter of Markham Developments (Investment) Limited

and in the matter of the Insolvency Act 1986.

Registered number 1028202

Nature of business: Property Holding Company

Trade classification: 35

Date of appointment of Administrative Receivers: 8 February 1990

Name of person appointing the Administrative Receivers: Hill Samuel Bank Limited

Michael Anthony Jordan and Malcolm John London

Joint Administrative Receivers

(office holder nos) 2172 and 2082 both of Shelley House, 3 Noble Street, London EC2V 7DQ.

**PERSONAL**

CITIBOX

**COMPANY NOTICES**

LEEDS PERMANENT BUILDING SOCIETY
£250,000,000
Floating Rate Notes Due 1997

In accordance with the terms and conditions of the Notes, the interest rate for the period 19th February, 1990 to 21st May, 1990 has been fixed at 15.2875% per annum. The interest payable on 21st May, 1990 against Coupon 1 will be £381.14 per £10,000 nominal and £3,811.40 per £100,000 nominal.

Agent Bank and Principal Paying Agent

ROYAL BANK OF CANADA

DUNNING HOLDING LIMITED (IN RECEIVERSHIP)
BARGATE (SOUTHAMPTON) PROPERTIES INVESTMENTS LIMITED (IN RECEIVERSHIP)
BARGATE SECURITIES LIMITED (IN RECEIVERSHIP)
SOUTHAMPTON MARINA AND TOWN QUAY DEVELOPMENT COMPANY LIMITED (IN RECEIVERSHIP)
VRBC DUNNING DEVELOPMENTS LIMITED (IN RECEIVERSHIP)
A J DUNNING & SONS (WEYHILL) LIMITED (IN RECEIVERSHIP)
ANDOVER PLANT HIRE COMPANY LIMITED (IN RECEIVERSHIP)
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DUNNING COMMERCIAL DEVELOPMENTS LIMITED (IN RECEIVERSHIP)
THURSLEY ESTATES LIMITED (IN RECEIVERSHIP)
STUTTARD & CURRIE LIMITED (IN RECEIVERSHIP)
A J DUNNING CONSTRUCTION LIMITED (IN RECEIVERSHIP)
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FULLEN PROPERTIES LIMITED (IN RECEIVERSHIP)
CARRON HEATING LIMITED (IN RECEIVERSHIP)
SAFETY SCAFFOLD SERVICES LIMITED (IN RECEIVERSHIP)
DUNNING MANAGEMENT LIMITED (IN RECEIVERSHIP)

NOTICE IS HEREBY GIVEN, pursuant to section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named companies will be held at: The New Connaught Rooms, Great Queen Street, London WC2B 5DA

on Tuesday 13 March 1990 at 11.00am for the purpose of having laid before it a copy of the report prepared by the administrative receivers under section 48 of the Act. The meeting may, if it thinks fit, establish a committee to exercise its functions conferred on creditors' committees by or under the Act.

Creditors are only entitled to vote if:

(a) they have delivered to us at the address shown below, no later than on Monday 12 March 1990, written details of the debts they claim to be due to them from each particular company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

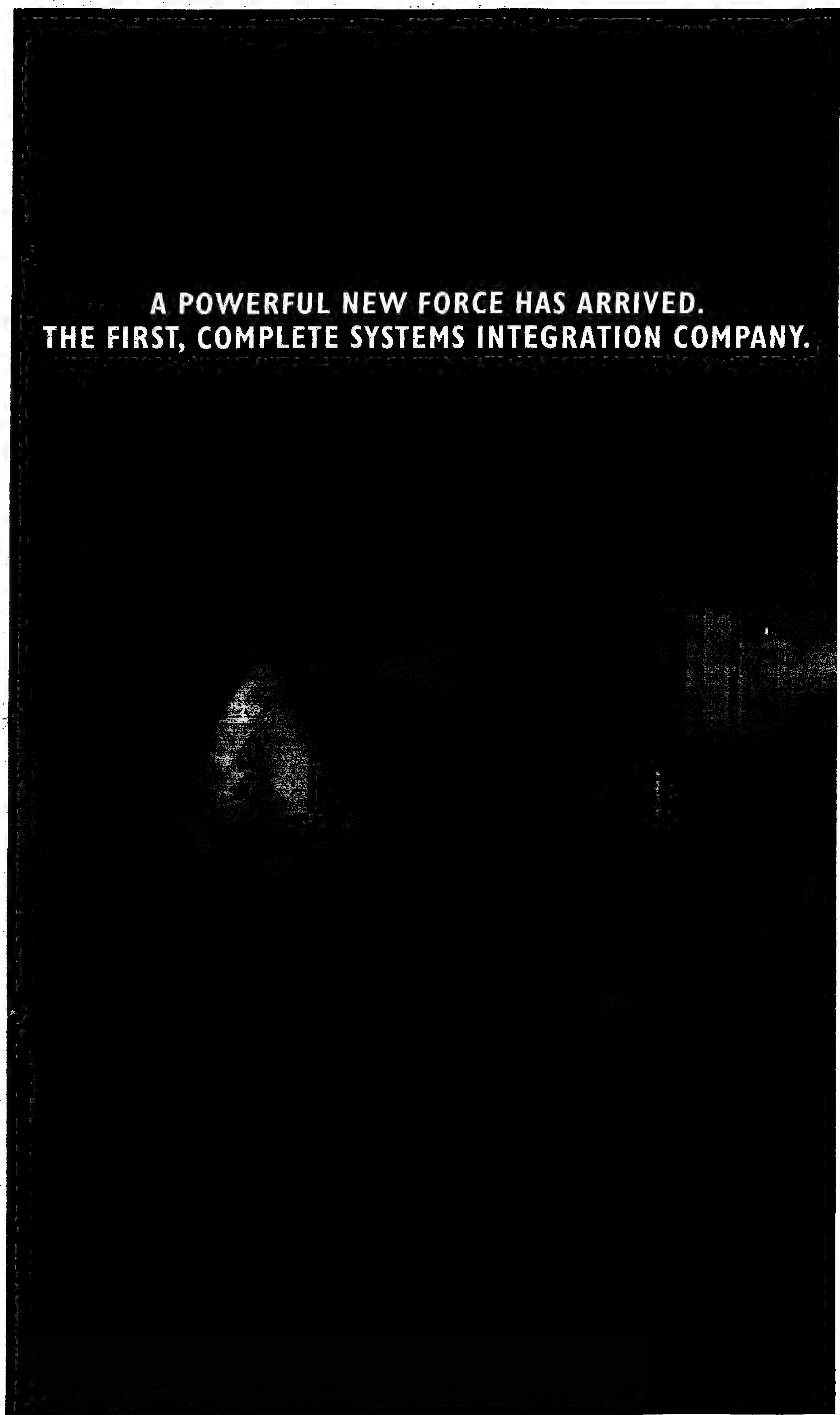
(b) there has been lodged with us any proxy which the creditors intends to be used on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditor must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.

Date: 16th February 1990

C.J. Barlow
Joint Administrative Receiver

Cork Gully
8 Greyfriars Road
Reading RG1 1JG

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FINANCIAL TIMES
# SURVEY

**Qatar's gas reserves should guarantee its prosperity for the next 200 years. Yet indecisiveness is holding back full exploitation of the deposits. The authorities will find it tough to fulfil the hopes of a people awaiting the fruits of the North Field Gas. Victor Mallet reports**

Qatari children will be assured of a prosperous future – the world's largest known gas reserve not associated with oil lies in Qatari territorial waters

# QATAR

## Time for bold decisions

QATAR has begun the decade in a hopeful mood. After the eight-year war between Iran and Iraq and a long recession caused by lower oil prices, Qatar and its neighbours are optimistic about the prospects for economic growth.

For Qatar, the future rests on natural gas. Its oil production capacity is expected to decline, but the world's largest known gas reserve not associated with oil – the North Field – lies largely in Qatari territorial waters. The field is expected to start gas production for domestic industry early next year, and Qatar has plans to exploit the reserves further for exports to its fellow Gulf states and Japan. The gas should guarantee Qatar's already enviable prosperity for another 200 years.

It was not always thus. The area around the Qatar peninsula did not impress the 12th century historian al-Idrisi, in spite of the valuable guano collected there by passing sailors and sold in Basra for fertiliser. "On the shore of the Sea of Qatar," al-Idrisi wrote, "there are no inhabitants. It is a dreadful place."

Times have changed with increasing rapidity since those words, cited by Mr Darwish al-Far of the National Museum, were written centuries ago. Until recently Qatar was famed for its pearls, and today it is the quintessential oil state, a country of only 80,000 citizens – outnumbered three to one by migrant workers – which has been catapulted into the 20th century by its new-found wealth. A generous welfare state free of taxation and equipped with a modern infrastructure is firmly in place.

Nineteen years after independence from Britain and 18 years after he took power, Sheikh Khalifa bin Hamad al-Thani, the Emir of Qatar, is now embarking on a less dramatic but still significant period of reform.

In July last year the ruling family announced an unprecedented government reshuffle, promoting a younger generation to cabinet posts previously occupied by cautious old hands or simply left vacant on the death of the incumbents. Seven ministers were dropped and 11 newcomers brought in, although the senior jobs remain in the hands of al-Thani family members.

Since then several reformist tendencies have been introduced or reinforced in what remains an intensely conservative Islamic society. The visa system has been liberalised to smooth the way for business visitors, and a trickle of tourists is being encouraged for the first time, by allowing hotels to sponsor holidaymakers and increase (if only marginally) their inadequate room occupancy rates. Expatriates can now more easily switch jobs and sponsors in Qatar, and the foreign wives of Qatari men, previously excluded, are now allowed into the country.

After years of budget and current account deficits, Qatar is also looking for ways to involve private companies and individuals in the responsibilities of running a modern industrial and consumer economy. It would be going too far to speak of austerity, but some commercial licence fees have been raised and there is talk of charging Qataris for hitherto free water and electricity if they use more than a fixed amount. Foreigners have so far borne the brunt of the government's belt-tightening measures in the form of lower salaries. They already pay for their water and electricity, and the authorities are planning to charge Arab expatriates for state education.

Having trimmed defence spending, shelved some costly building plans and delayed road maintenance, the government has recently raised $600m in foreign loans for gas development and other expenditure, and it has shown signs of wanting greater foreign participation in financing big projects. At home it is urging private companies to participate in ventures which were once the preserve of the state, including a proposed power station and water desalination plant.

"Policy now is tending towards having a larger private sector participation in a lot of government expenditure," says Mr Kamal Ali Saleh, director-general of the Qatar Chamber of Commerce.

The new cabinet, however, will find it a challenging task to fulfil the expectations of a country eagerly awaiting the fruits of the North Field gas. Even members of the government admit that they are hampered by their own unreliable economic statistics, although budgeting fortunately errs on the side of extreme caution rather than over-optimism.

Sheikh Hamad bin Khalifa al-Thani, the Heir Apparent and Defence Minister, is admired for his reformist efforts and has been given increasing responsibilities by his father to pave the way for a smooth transition of power when the time comes.

Sheikh Abdul-Aziz bin Khalifa al-Thani, Sheikh Hamad's half-brother, remains Minister of Finance and Petroleum but has moved into the background since the days when he was thought of as the future Emir. In the meantime the Qatar Monetary Agency, the central bank, has been given an enhanced role with the appointment of a governor with ministerial rank, Mr Abdullah Khalid al-Attiya.

There are still 1,500 male al-Thanis vying for influence, and the young cabinet members Sheikh Hamad helped to choose – particularly those outside the royal family – remain cautious and deferential to their predecessors, who in turn are unwilling to lose the trappings of power.

Perhaps to a greater extent than other Gulf states, Qatar suspects foreign companies of trying to exploit its inexperience in business matters. Such wariness is understandable for those who recall the years of the oil boom, but there is always the danger that the cost of Qatar's indecisiveness will be greater then the savings to be made by its caution. While Qatar and its potential foreign financiers have hesitated over an aluminium plant, Iran, Bahrain and Dubai have forged ahead with their own plans for construction or expansion in the same field.

The future of Qatari gas exports is an even more important issue. Discovered in the 1970s, the gas from the first phase of the North Field development should start flowing into Qatar – mainly for domestic purposes – in 1991. No deal has yet been agreed for pipeline exports to the Gulf itself or for a multi-billion dollar investment in overseas shipments of liquefied natural gas, and many Qataris and resident foreign businessmen fear that Qatar may miss the boat.

Qatar's oil industry and the business community are already feeling the impact of delayed public investment, and only the sharpness of the recession has prevented the effects from becoming critical. Existing gas supplies, as well as gas-powered electricity generating capacity and desalinated water output, are utilised to the full, a situation which will restrain economic expansion until the remedies now being implemented are complete.

The Qatari government has generally been criticised not for wild extravagance or misdirected investment but for its unwillingness to decide priorities. With this in mind it has recently established a Supreme Council for Planning, a body charged with analysing the current economic situation and devising a long-term strategy in the form of annual and five-year plans. Among the main issues to be debated will be the value of attempting to promote industrialisation and the role to be played by outside capital.

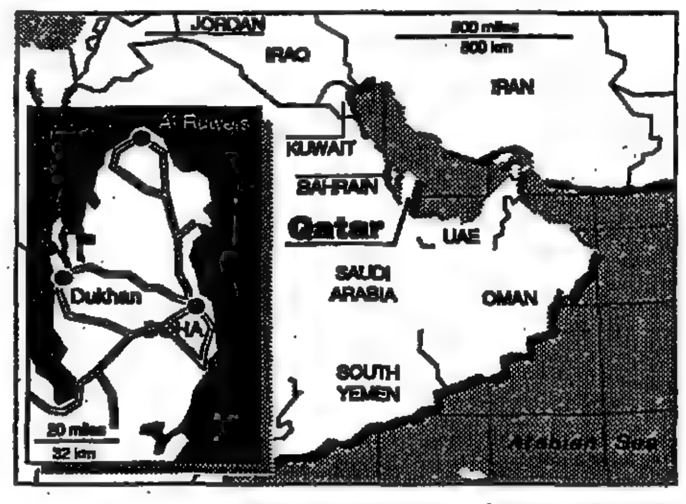
On the foreign policy front, Qatar has played its cards carefully as a member of the six-nation Gulf Co-operation Council. Dependent as it is on the Gulf sea-route for exports and imports, Qatar was relieved by the ceasefire in the Iran-Iraq war in 1988. Last year Iran announced that one third or the North Field was in Iranian waters, but Qatar does not yet appear unduly concerned by Iran's stated aim of exploiting some of the gas for itself.

Tension over Bahrain's claim to Qatar's western islands has eased following the flare-up in 1986, when Qatar raided a base being built by Bahrain on the islet of Fasht al-Dibal and briefly abducted the construction workers.

Curiously, Qatar's most active dispute is with the US, which has frozen military co-operation to back its demand for the return of a dozen or more Stinger hand-held ground-to-air missiles.

Qatar had asked to buy Stingers, but had been refused. Washington was therefore outraged when a Stinger was spotted at a Qatari military parade in 1988. It is assumed that Qatar bought the missiles from the Afghan Mujahedin guerrillas, with whom it has good relations.

Much more important in the long-term will be Qatar's attempts to reconcile its traditional political system of rule by decree – and the strict Wahhabi Islamic beliefs that most Qataris share with their powerful neighbour Saudi Arabia – with the commercial and social influences of the outside world.




**KEY FACTS**

*Ruler:* Sheikh Khalifa bin Hamad al-Thani, the Emir of Qatar
Population: 350,000 (estimated 80,000 Qataris)
Current exchange rates (Feb 90): $= Qatar riyal 3.64; £= Qatar riyal 6.17
*GDP at market prices:* 1988 5.3 ($5.1bn)
Real GDP growth: 1.5% (2.0%)
Exports: 1988 $2,580m ($2040m)
Imports: 1988: $910m ($900m)
*Current account:* -$260m (-$131m)
Total external debt: $724m

**Hunter Reynolds** reports on the state's inability to capitalise on its huge natural gas deposits and, right, its modest oil sector

# Golden asset waiting to be profitably exploited

QATAR'S hopes for future prosperity lie in the shallow waters of the Gulf. A 6,000 sq km area north-east of the Qatar peninsula is home to the world's largest gas field. With recoverable reserves of 150 trillion (million million) cubic feet, the North Field has the potential to provide Qatar with huge quantities of gas for the next 200 years.

Natural gas is widely regarded as the fossil fuel of the future. With environmental concerns beginning to make an impact on energy consumption patterns, the burning of dirty fuels such as coal and oil is likely to give way to the increased use of clean energy sources such as gas.

But Qatar has so far been unable to turn its biggest asset into an immediate source of cash to help put an end to four years of current account and budget deficits. Plans to export large quantities of liquefied natural gas to Japan are being delayed by the difficulty of finding buyers prepared to commit themselves much before 2000.

"No one doubts the long-term future for Qatari gas," comments one Gulf-based oil analyst, "but in the short term it looks like they have missed the boat." New LNG projects in Australia, Malaysia and Indonesia mean that Japanese utilities are largely committed for the time being, and industry analysts believe Japan will not need a new gas source until 1998.

Qatar clearly remains hopeful that increasing demand will lead to the signing of enough contracts to justify the building of a liquefaction plant. The Qatar General Petroleum Corporation (QGPC) has brought together a consortium that includes QGPC with a 70 per cent stake as well as BP, Total, Marubeni and C. Itoh to launch the project. The group, known as Qatargas, is to operate an LNG plant using gas supplied by QGPC. Qatargas is currently preparing a marketing campaign aimed at attracting Japanese electricity generating companies into signing firm long-term contracts.

Industry analysts point out that the LNG market still only accounts for 3 per cent of world gas production and that from this low base there is plenty of room for expansion. Forecasts made by the Shell group, the world's largest gas supplier outside the Soviet Union, predict that LNG demand could rise from 43m tonnes per year in 1988 to 62m-79m tonnes by 1995 and possibly to as high as 130m tonnes by 2010.

QGPC's managing director, Dr Jaber al-Marri, can take

**Qatar has been unable to turn its biggest asset into a ready source of cash**

take comfort from such figures. In recent months, he has taken an active personal role in the search for potential buyers. He has made several trips to Japan as well as giving a series of detailed presentations at international meetings attended by leading gas consumers.

The Qatargas project calls for the construction of an 8m tonne per year gas liquefaction plant and the commissioning of a fleet of seven LNG-carriers. The total cost of the project is estimated at $4bn or more; the plant will cost $1.4bn, the ships $1.4bn and the field development $1.2bn. It is not clear how Qatar plans to finance its share.

All Qatargas needs is to sign two big contracts to go ahead with the project. The consortium is currently hoping to start by signing a 4m tonne per year contract with Chubu Electric Power. Qatargas sources say they are confident that once one contract is signed, others will follow.

Qatar, however, will need to formalise the details of the project before Japanese companies sign any new contracts. In particular, it will have to agree on financing and the plant inlet price for the gas.

A bid to find regional buyers is looking more hopeful. The emirate of Dubai wants to sign a contract for 200m cu ft per day rising eventually to 1,000m cu ft to supply industries at the Jebel Ali free zone. It also needs the gas to re-inject into its offshore fields in order to maintain rapidly falling oil pressure. Talks on an underwater gas link between Qatar and Jebel Ali have been going on for over a year.

Plans sponsored by the Gulf Co-operation Council for a regional gas grid linking Qatar with Bahrain, Saudi Arabia and Kuwait were also discussed at a recent ministerial summit in Abu Dhabi. Kuwait, in particular, needs gas for its industrial development and feasibility studies for the grid are under way.

Meanwhile, there is good news for gas-hungry domestic consumers in Qatar. Officials say the $1.3bn Phase 1 of the North Field development project which aims to supply local users with 800m cu ft of gas will come onstream early next year.

QGPC has almost completed the drilling of 16 wells, and early this month it began the installation of two well-head platforms. Six other platforms will be installed over the coming months. A twin pipeline to carry gas and petroleum liquids to a new processing plant at the Umm Said industrial area via the onshore station at Ras Laffan in the north of the Qatar peninsula has been completed. A second pipeline with capacity for 400m cu ft linking Umm Said with the onshore Dukhan field to be used for the re-injection of excess gas is in the process of being completed. In total, 550km of pipelines are being laid.

A gas treatment plant and two 50,000 cu m tanks are currently being constructed at Umm Said. Initially 1.65m tonnes a year of liquid petroleum gases and natural gas liquids will be exported raising up to $200m a year, which will help recoup the cost of the Phase 1 project.

Qatar is short of electricity and Phase 1 will allow the planned expansion of the power station at Ras Abu Fintas, south of Doha, putting an end to load-shedding during the summer months of peak demand. Siemens was recently awarded a contract to build two new gas turbines which will increase the power station's capacity from 1,100MW to 1,400MW.

Qatar has been under severe pressure to bring Phase 1 of the North Field onstream because other sources of gas are rapidly failing. Its principal source is the Khuff gas reservoir where production peaked in mid-1987 at 600m cu ft.

Output is projected to fall to less than 300m cu ft by the end of this year while peak summer demand in Qatar is estimated at close to 600m cu ft, according to a recent paper presented by QGPC's Dr al-Marri. Production of associated gas from onshore and offshore fields is put at around 150m cu ft.

# Offshore fields fast running dry

MORE than half a century has passed since an oil exploration team first found oil in Qatar. In 1939, the geologists of the Qatar Petroleum Company lacked today's highly sophisticated seismic equipment to look for subterranean oil-bearing structures. Working through observation of the surface geology, they started drilling on a large mound in the south-west of the Qatar peninsula. Their discovery turned out to be Qatar's largest oil find, the Dukhan field.

Production at Dukhan was delayed by the Second World War but the field finally came onstream in 1949 and has been faithfully producing oil ever since. Output reached a peak of 210,000 barrels a day in 1981 but has since fallen to around 170,000 b/d.

Qatar's impressive infrastructure is the result of the oil price rises during the 1970s and early 1980s inspired by the Organisation of Petroleum Exporting Countries, of which Qatar is one of the smaller members.

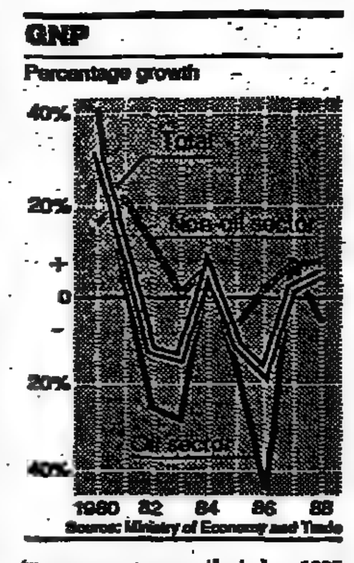
Its recoverable oil reserves are currently believed to stand at a meagre 2.5bn barrels, one hundredth of Saudi Arabia's, and Qatar is producing full tilt at up to 400,000 b/d.

Oil production, especially from offshore fields, is set to decline sharply by 1995. The discovery of the giant North Field gas reserves will eventually give Qatar a financial reprieve, but delays in exploitation of the gas will leave oil as the primary source of income for the most of the rest of the century.

Qatar's emphasis in the short term is to maintain its oil production at current levels for the next 10 years. The Qatar General Petroleum Corporation (QGPC) is planning to extend the Dukhan field and has invited tenders for equipment. A total of 19 new wells will be drilled at an estimated cost of $100m. When the project is complete in two or three years an extra 50,000 b/d of extra capacity will be added to onshore production, which will go some way towards compensating for reduced offshore production.

QGPC is also planning to put into effect an enhanced secondary recovery programme at the Dukhan field. The project will involve drilling new wells and installing water-injection units to maximise production at the field.

Offshore production trends are more worrying. The fields are fast running out and indus-




try sources say that by 1995 production will be down from 200,000 b/d to fewer than 50,000 b/d. Lack of maintenance has also had an effect on production from offshore fields.

When oil prices collapsed in 1986, QGPC was forced to respond to the fall in income by reducing expenditure on vital maintenance work. Last year, it closed down some of its offshore production platforms in order to repair or replace equipment suffering from sea corrosion. Further production cutbacks are expected this year.

Exploration activities in Qatar are continuing. In 1988, Amoco was awarded most of onshore Qatar for exploration and has made seismic studies covering 5,000 sq km. Last year, the company drilled three dry wells but is planning to drill a further four wells within the next 12 months.

Company officials say that if no oil is found after the next round of drilling, they will call it a day and pull out. Amoco is the last of many companies which have explored the concession and by next year onshore Qatar will effectively be fully explored with limited potential for further activity.

Limited offshore exploration is also going ahead. Standard Oil pulled out of a block off the south-east coast of Qatar last year following its acquisition by BP. A small gas and condensate field was discovered at al-Karkara but was found to be uneconomical under the terms of the original production-sharing deal signed with Qatar. Standard Oil tried to renegotiate the terms of the accord in order to develop the field but failed to do so and was forced to pull out.

France's Elf Aquitaine recently signed a production-sharing agreement allowing it to explore an offshore block east of the North Field. The block was previously explored by Shell which withdrew after seven dry wells. The French company is currently studying seismic reports and plans to drill two wells this year starting in October.

Meanwhile, industry sources say that there are no signs at present of any exploration in Qatar's most promising zone known as Block 3. Situated off the west coast of Qatar next to the onshore Dukhan field, Block 3 includes the islands which are the focus of a long-standing territorial dispute with neighbouring Bahrain.

A political compromise will have to be reached before exploration can go ahead but industry sources say there is no sign of such an accord. The concept of joint exploration is not on the cards, for the time being at least.

**Victor Mallet** on the impact of recession on the trading houses

# Cutbacks and casualties

FALLING oil revenues and government spending cuts made the late 1980s a difficult period for contractors and traders in Qatar, and the exploitation of the country's gas reserves — together with a firmer oil market — have only recently given the business community grounds for optimism.

The professionally managed trading houses were quick to adapt to the recession, cutting costs by as much as half, but the inexperienced soon found themselves with unacceptable overheads and onerous debts to the banks.

Qatar is a small, trade-dependent market of only 350,000 individuals, most of them migrant workers, and the impact of a fall in imports from more than Qatar riyal 7bn ($1.9bn) in 1982 to around Qatar riyal 4bn a year over the past six years was unusually severe. In common with other Gulf businessmen and officials, Qataris insist they are pleased that the economy has found equilibrium at a realistic level of activity after the oil boom years, even if they sometimes say so through gritted teeth.

"Generally the past decade was not very good except for the first two years," says Mr Kamal Ali Saleh, director-general of the Qatar Chamber of Commerce. "But we are feeling that there is a little improvement in our imports now. We feel that the government will be tending to spend more because of its expenditure on the North Dome gas field (the North Field)."

Substantial and immediate economic expansion is restrained by the current shortage of gas, electric power and desalinated water, although the first phase of the North Field development will ease these problems from early next year. In the meantime the government is gradually diluting its paternalistic policies (and trying to save money) by urging the private sector to take charge of at least some aspects of Qatar's economic development — including power and water production.

There are several large private groups which could be persuaded to take up the government's challenge. The best known is the Mannai Corporation, a company already involved in trading, manufacturing, transport, engineering and technical services. Mr Ahmed Mannai, the chairman, attributes the group's success to careful budgeting and specialisation; he says he deliberately avoided the civil engineering sector where more than 100 operations were competing for a shrinking market.

"In 1983 we saw there was some recession," he says. "We shook up the corporation. We cut costs by almost 40 per cent." Mr Mannai is hopeful about the long-term benefits of the North Field, but does not anticipate a much faster economic pace until 1992 in spite of a slight improvement last year.

Mr Abdullah Kassem Darwish, who runs Darwish Trading — part of the wide-ranging family company Kassem Darwish Fakhroo and Sons — takes a similarly cautious view. He says he hopes that the recession is coming to end, and that last year was the bottom of the depression.

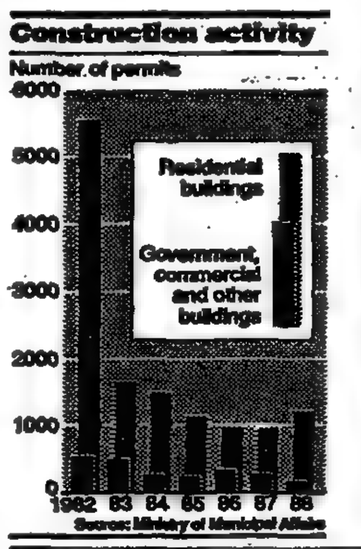
"A lot of people here in Qatar have just been staying alive rather than concentrating on making a profit," he says. "We had to cut staff, reduce our overheads and change our strategy. Cash was our priority and we were less willing to give credit."

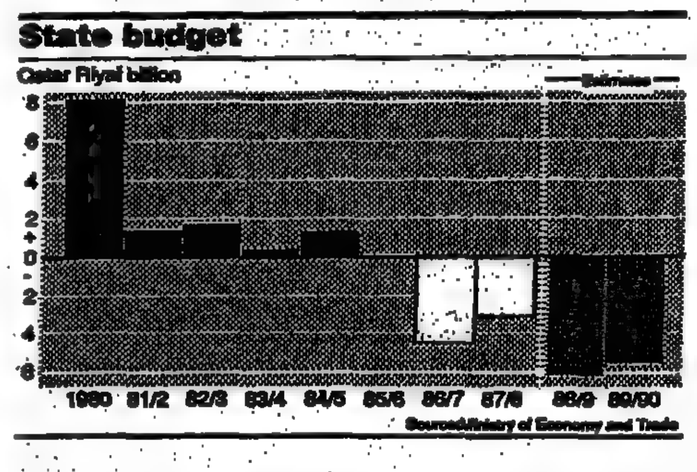
Qatari contractors have been badly affected by delayed payments from the state, and some of them say the government would find it easier to cajole the private sector into heavy industry and public services if it cleared the air by paying its debts in full.

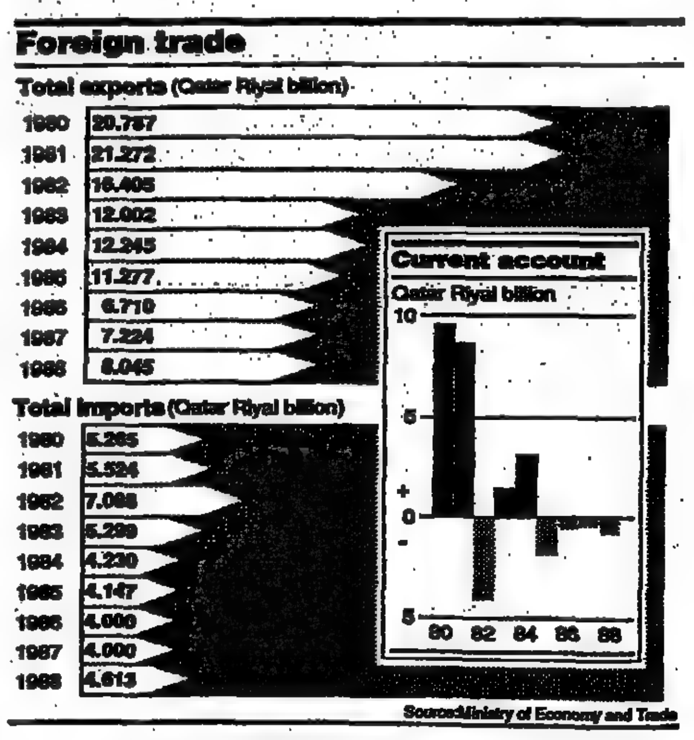
In 1988 the backlog was estimated at up to Qatar riyal 3bn, with payment delays of around a year, although the amount is now thought to have been reduced to Qatar riyal 1bn and the delays have shrunk; Mr Mannai put them as low as three to four months, but other contractors are still complaining of seven or eight-month delays. Some companies have resorted to withholding the pay of migrant workers for several months at a time.

Local contracts stipulate payment "within a reasonable period" and a proposal has been put forward to tie the government to a 120-day limit, with a 6 per cent interest rate penalty for money owing after the due date. If the government continues to reduce the backlog, however, the scheme may prove unnecessary.

Contractors have in the meantime seen their profit margins eroded by the delays and the cost of bank borrowing, and some have been unable to service their loans.




BANKING

# New regime in the offing

IT WOULD be an overstatement to say that pulses are racing in the Qatar banking community, but government reshuffles and the prospect of further expenditure to develop the country's gas reserves have raised bankers' hopes of an increased level of financial activity.

After several years of recession and a long period of unimaginative leadership by the regulatory authorities, Mr Abdullah Khalid al-Attiya was appointed in January as governor of the Qatar Monetary Agency. Mr al-Attiya, a respected banker who ran the Qatar National Bank (QNB), will have ministerial status in his newly-created post, and he appears determined to modernise the Qatari banking system as soon as he can.

One of his first aims will be to liberalise the rigid interest rate structure. At present the 14 local and foreign banks in Doha may lend only at between 7 per cent and 9.5 per cent interest, and pay only between 4.5 per cent and 7 per cent on customers' deposits. "The flotation of interest rates will certainly be evaluated in the near future," Mr al-Attiya said in an interview.

Bankers say the present interest rate regime has several disadvantages. It makes it difficult, for example, to lend profitably to the smaller borrower without stringent guarantees.

More importantly, Qatari money constantly flows out of the country in search of the higher interest rates available on dollar deposits. With a fixed exchange rate for the Qatari riyal against the dollar, there has so far been no risk involved, although the small interest rate differential at the moment means the problem of capital flight is not as serious as it has been.

Qatari banks have in any case found ways of bypassing the interest rate limits in the past. Banks needing riyal deposits have paid effective interest rates of more than 7 per cent by giving the customer a cash "gift" which earns interest together with his actual deposit, thereby increasing the overall yield.

Mr al-Attiya says he is anxious to redirect Qatari money away from dollar deposits and into local economic development, but he has no illusions about the capabilities of a commercial banking sector with only about Qatar riyal 20bn ($5.4bn) in total assets.

Mr al-Attiya is still on the board of QNB, the 50 per cent state-owned bank which dominates the market. He remains confident both about QNB — where profits are running at more than Qatar riyal 200m a year — and the other Qatari banks, in spite of the poor quality of many loan portfolios following non-payment of debts by companies and influential individuals.

He plans to improve the capital adequacy of banks by increasing the level of capital and reserves as a proportion of total assets, perhaps to 8 per cent from 6 per cent now. Mr al-Attiya also hopes to ease the bad debt problem by creating a specialised QMA unit to evaluate creditworthiness, and he intends to separate the QMA's normal functions from its current role as the government's tax adviser on banks.

The tax issue is regarded as particularly important by foreign banks — they pay tax at up to 50 per cent (a punitive rate by Gulf standards) while the local banks are exempt — because there appears to be a conflict of interest between the QMA's two functions. It cannot squeeze tax revenue out of the banks at the same time as applying a cautious policy on bad loan provisions.

The QMA has been criticised for cutting foreign banks' provisioning requests by as much as three quarters, but it is under pressure from smaller local who favour only a moderate provisioning policy.

Some foreign banks also resent what they regard as unfair discrimination by the Qatari authorities in other areas. In practice, for instance, they have not been allowed to arrange performance bonds for oil and gas projects such as the North Field gas development, although theoretically they have the right to do so.

There is concern about bad debts and about the slow progress of debt cases through the civil courts, but Qatar's adherence to the Wahhabi sect of Islam makes it difficult to give the issue of debt and interest payments too high a profile.

Officials and bankers all agree that Qatar has too many banks for the available business, and there was some surprise this month when the government approved the establishment of a new bank, the Qatar International Islamic Bank.

Although the government has been running a budget deficit for several years and is likely to continue doing so, Mr al-Attiya said there were no immediate plans to yield to pressure from the banks and introduce a treasury bill system similar to those in Saudi Arabia. Bankers, however, are likely to be delighted if he fulfils his other promises. "If only 10 per cent of his liberal arguments are implemented, then it will be a mini-revolution," says one banker.

**Victor Mallet**

**Hunter Reynolds** on an aluminium project dogged by indecision

# Back to the drawing board

THERE can be few better examples of Qatar's cautious – some would say too cautious – approach to the implementation of new projects than the longstanding plan to build an aluminium smelter.

For several years, Qatar has been examining the idea as part of its policy of attracting energy-intensive heavy industries which will use gas from the North Field.

The seriousness of the proposal is not in doubt. An aluminium smelter is the pet project of Mr Ahmed Ali al-Subaie, the newly-appointed Industry Minister. He previously headed the Qatar Steel Company (Qasco) as well as presiding over the Qatar Executive Aluminium Committee, set up by the government to look into the project.

Mr al-Subaie has signed two separate letters of intent for aluminium plants but both seem to have been overtaken by events.

The aluminium project will be the showpiece of a new metals industry planned by the ministry.

In an interview with the Financial Times, Mr al-Subaie said he was also actively looking for partners to build new plants to make ferro-alloys, sponge iron, graphite electrodes and other products. The ministry's plans are to promote the projects and then hand over the Qatari share of the ventures to small and medium-sized private Qatari companies.

Qatari officials negotiating the fine print of the aluminium smelter project with prospective foreign partners have taken an exceedingly cautious stand on the project. Value for money and a reasonable internal rate of return have been high on their list of priorities.

The first joint venture agreement with a foreign group fell through at the last minute and the second appears to have stalled in the past two months.

In November 1988, Qatar signed a letter of intent with a consortium put together by the British company Clivia House for the construction of a 240,000 tonne per year smelter to come onstream in late 1991.

The Clivia House chairman, Mr Paul Brauner, took a leading role in the establishment of the Aluminium Bahrain (Alba) and Dubai Aluminium (Dubal) smelters. Last year, following protracted negotiations, the deal fell through after a failure to agree on the price to be paid for the gas input.

Last October, Davy McKee, part of Davy Corporation, signed a memorandum of understanding with the Qatari government to lead the development of a 193,000 tonne per year aluminium plant and associated power and water desalination plant. The project was to have generated power using natural gas from Qatar's giant North Field now being developed.

The memorandum expired at the end of January with both sides having failed to agree on the final details of the project. Once again, talks stalled over the question of the gas price and there may also have been difficulties with arranging a financing and ownership package acceptable to both sides.

"New contacts are being made with potential investors in Europe and the Pacific who have expressed interest in this project," Mr al-Subaie said. Interested parties include Ferrostahl of West Germany and Norsk Hydro.

**For several years, Qatar has been examining the idea of an aluminium smelter as part of its policy of attracting energy-intensive heavy industries which will use gas from the North Field**

As a result of the deadlock, the project will probably be delayed by at least another six months, and the plant is now expected to come onstream in early 1993. However, Mr al-Subaie insists that Qatar remains keen to proceed with plans to build the smelter.

Davy McKee has said that talks are continuing in an effort to salvage the deal and it has asked for an extension of the validity of the memorandum. A final costing of the project is being prepared.

Qatar has been demanding a price of $1 per million Btu for its forthcoming gas sales from the North Field but this was believed to have been too high for most bidders. Gulf-based consultants warn that Qatar is going to have to be more flexible on the question of gas pricing.

The experience with Davy McKee appears to have led to a change of tack by the government. Talks with the UK company envisaged 100 per cent foreign financing of the project, with the State of Qatar taking royalties and being given the option of acquiring up to 30 per cent of the plant's equity in the first 10 years. Mr al-Subaie said that an alternative financial structure was being examined which might increase the equity participation of Qatari and Gulf interests.

Meanwhile other potential aluminium producers in the Gulf are pressing ahead with their own plans, raising the question of whether Qatar will miss the boat if it continues to hesitate.

This month, the Dubai-based consortium International Development Corporation (IDC) announced that it had reached an agreement with Iran to build a $1.35bn aluminium smelter in the southern Iranian port of Bandar Abbas.

The consortium, which includes George Wimpey, Asea Brown Boveri, Marc Rich and Caradel Investments, will build a 220,000 tonne a year smelter which will come onstream in 1993. A new plant is planned in Saudi Arabia and expansions are currently being planned at Aluminium Bahrain and Dubai Aluminium.

INDUSTRIALISATION

# Mixed track record

Desalination plant in Qatar where the private sector is being urged to take charge of some aspects of the country's economic development, including water production

QATAR embarked on its first round of industrialisation more than 10 years ago in a bid to reduce dependency on direct energy sales. The programme started in the mid-1970s and resulted in the creation of three companies: Qatar Fertiliser Company (Qafco), Qatar Petrochemicals Company (Qapco) and Qatar Steel Company (Qasco).

Qatar's foray into heavy industry has been, at best, a mixed experience and goes a long way to explain its present cautious approach towards setting up new industries. Both Qapco and Qasco posted large losses in the first years of operation but have recently seen a big upturn giving renewed optimism for the country's long-term industrial prospects.

Qatar's most successful venture has been Qafco which was set up in 1968 to use associated gas for the production of ammonia and urea. Since 1975, it has been owned by the Qatar General Petroleum Corporation (the state hydrocarbons company) with 75 per cent and Norsk Hydro with 25 per cent. Qafco posted losses in 1986 and 1987 due to unfavourable market conditions but last year recorded profits of Qatar riyal 100m ($27m).

Last year, Qafco's plant at the Umm Said industrial complex produced more than 780,000 tonnes of urea, 25 per cent above the design capacity, and 714,000 tonnes of ammonia, again exceeding capacity by 15 per cent. The company is now planning an expansion programme scheduled for completion by 1993. A new plant with production capacity of 2,000 tonnes per day of urea granules will be built together with a plant with capacity to produce 1,000 tonnes per day of ammonia.

The new plants will increase Qafco's consumption of natural gas from 100m cu ft a day to 160m cu ft. It is in the process of choosing the technology for the new plants and says that it will finance the estimated $300m cost of the project partly with external borrowing.

Qafco plans to use output from the additional capacity to develop new markets in Europe and the US in a bid to diversify its outlets, according to Mr Fouad al-Mahmoud, Qafco's executive deputy chairman. In particular, Qafco wants to reduce its dependence on China which currently accounts for 40 per cent of its sales. Following last year's suppression of the pro-democracy movement at Tiananmen Square, western governments suspended credits to China which in turn responded by freezing purchases of fertilisers from abroad. Qafco's earnings were severly hit.

Meanwhile, in what is seen a significant new development, Qafco is preparing to go it alone in the marketing of its products. To date, marketing has been handled under a contract with shareholder Norsk Hydro which will not be renewed when it expires at the end of this year, Mr al-Mahmoud says.

Qatar Steel Company, set up in 1978 as a joint venture with Japan's Kobe Steel Company and Tokyo Boeki, posted losses for the first nine years of operation and led to strained relations between Qatar and its two foreign partners. Accumulated losses since the plant's foundation exceed $100m.

In 1988, under the chairmanship of the now Minister of Industry, Mr Ahmed al-Subaie, Qasco posted its first profits. Last year, Qatar took full management control and the company says it has continued to make solid but undisclosed annual profits. The company is consolidating its position.

Qasco's production is at record levels. Last year, it produced 550,000 tonnes of steel, 68 per cent above the plant's nominal capacity of 350,000 tonnes a year. It sells 90 per cent of its output to other Gulf Co-operation Council (GCC) states. Given the tight balance between supply and demand in the GCC and recent dumping by other producers, Qasco has been forced to embark on an active search for new markets. In particular, Qasco is eyeing the huge Iranian market but financing constraints remain a problem in turning this into an important new outlet.

Qatar Petrochemical Company, a joint venture between Qatar General Petroleum Corporation and France's Orkem, brought its first plants onstream in 1980 but was forced to endure heavy losses in the first six years of operation. A lack of ethane feedstock combined with a downturn in the international petrochemicals market forced the company to operate its plants at below capacity, resulting in the hefty loss. A $100m Euroloan taken out in 1984 had to be renegotiated two years later.

Qapco's feedstock problems have now been resolved and since 1987 it has posted increasing profits. Provisional figures for 1989 put the company's earnings at a record Qatar riyal 420m ($114m). Output also reached record levels. Production of ethylene stood at 295,000 tonnes, low density polyethylene (IDPE) totalled 181,000 tonnes and sulphur reached 52,000 tonnes.

Qapco has now paid back all its external debts and has gone some way towards repaying cash owed to shareholders, according to Mr Bernard Martinot, its general manager. Recent successes have led to tentative plans to expand capacity of polyethylene.

Qapco hopes to build a second plant similar to the existing unit which will increase production capacity of IDPE to 840,000 tonnes a year. Ethylene capacity could be increased to 450,000 tonnes a year in a second phase. Qapco's expansion plans are on hold pending the outcome of talks between QGPC and other international companies on the setting up of similar downstream petrochemicals plants which will be fed on North Field gas.

**Hunter Reynolds**

AGRICULTURE

# Ploughing on

IN QATAR the greenhouses are designed to cool the plants, not keep them warm. Fans at one end pull the hot desert air through water-soaked absorbent pads at the other, creating a cool breeze as the water evaporates. Even this does not work all the time. When air humidity approaches 100 per cent in the muggy Qatari summer, the evaporation effect is lost.

The Qatari government does not appear to be discouraged. Mr Ibrahim Hamad al-Badr, managing director of the Arab-Qatari Vegetable Production Company at al-Shahaniyeh, west of the capital Doha, says there are plans to expand what is already the largest greenhouse operation in the country.

Tender documents are being prepared for a trebling of the area under cover to nine hectares, and work could start later this year at a cost of several million dollars. The original $6m farm, using computers to control the climate and inject fertilisers into the irrigation water, was built in 1983 and managed at first by HVA Agro Industries of the Netherlands. Ownership is now shared between the state of Qatar and the Arab Authority for Agricultural Investment and Development.

The extra indoor capacity for vegetables such as tomatoes, cucumbers and peppers – packed at the farm and sold by auction in the souk or directly to shops – should increase Qatari output enough to satisfy winter demand for these products.

In common with other Qatari farms, the al-Shahaniyeh project uses underground water, but requires its own reverse osmosis plant to purify the water before irrigation. Vegetable production is regarded as something of a success for Qatar's efforts to promote "food security", and yet the shortage of good water calls into question the whole idea of trying to cultivate a land with no rivers or streams and little rainfall. Neighbouring Saudi Arabia is experiencing similar doubts.

Latest official figures show Qatar producing 35 per cent of its vegetable requirements, compared with around 60 per cent for milk, 80 per cent for fish and only 5 per cent for cereals. Food imports cost more than $200m a year. Although Qatar has recently begun to use treated waste water for farming, there are fears that the aquifer in the north-east will run dry by 2000.

The government is more optimistic. "Assuming that the rate of pumping from the underground aquifer continues at the present rate – and if the state continues to suffer from severe lack of rain – we think that the underground water will not be adequate for more than 20 years," says Mr Mubarak Ali al-Khater, Minister of Power and Water.

At the government's Rodat al-Faras 50-hectare research farm in the north, Mr Izzat Mansour, the Egyptian supervisor, has noticed a gradual increase in water salinity at one of his wells over the years but does not regard it as a serious problem.

"In 1963 when this farm was started there were about 200 farms. Now there are about 900 or more. In the market now you will find lots of local produce, and very cheap," he says.

His farm tests imported seeds and experiments with new methods of irrigation and cultivation, as well as supplying 2m vegetable seedlings and 500,000 young trees for fruit and shade each year to Qatari farmers. The farm grows everything from fig trees and vines to eucalyptus and lettuce in temperatures ranging from three to 50 deg C.

The state gives free plants, pesticides and agricultural services in an effort to promote farming, although farmers now have to pay a nominal one riyal for their trees in the hope that they will look after them.

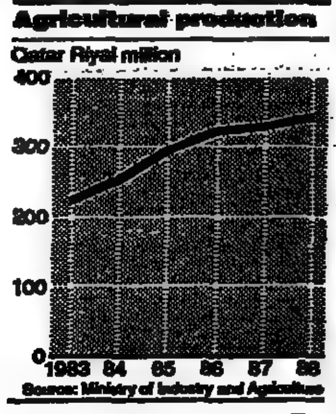
Qatar's budget deficits and its water shortage have dampened official enthusiasm for diversification into agriculture, and at present not more than 5,000ha of the 30,000ha of cultivable land is used, while agriculture accounts for only about one per cent of gross domestic product. An experimental scheme using the heat of the sun to desalinate sea water for agriculture has been shelved.

Most observers agree that it is sensible to concentrate on vegetable, dairy and egg production for local consumption, rather than wasting water by attempting to grow too much wheat. Total farm output has been rising slowly, but it is difficult to assess how much of the agricultural sector would be viable without government support.

**Victor Mallet**

**Agricultural production**

Qatar Riyal million




Source: Ministry of Industry and Agriculture



PRIVATE SECTOR

# Change of tide on capital flows

FACED with a squeeze on state finances yet anxious to go ahead with a programme of industrial development, Qatar's economic planners have embarked on a policy of encouraging private enterprise and directing private sector funds into new ventures.

Qatar is not short of entrepreneurial merchants and the oil boom of the 1970s and early 1980s created a pool of untold individual wealth. But the private sector has traditionally limited most of its investment to construction and trading, and the recent recession in the Gulf has pushed billions of dollars of Qatari money into overseas markets.

**The recession has pushed Qatari money overseas. Government policy now aims to encourage the repatriation of capital**

Government policy now aims to change this and encourage the repatriation of capital. In the past the state has had full control over heavy industries, either directly or through the Qatar General Petroleum Corporation, the state oil company, but today the authorities are looking for private investment in electricity and water as well as a new metals industry. Furthermore, the Ministry of Industry is planning to promote small and medium-sized industries for which it wants the private sector to take responsibility.

Difficulties in arranging a deal for selling liquefied natural gas from the North Field to foreign customers have encouraged the view among some Qatari officials that domestic industrial development is a viable alternative source of revenue.

It is clear from the list of emerging joint stock companies that the state is playing a leading role rather than relying on any natural enthusiasm from private businessmen. Indeed, some merchants are unhappy about what they regard as the government's lack of business acumen, and they are thought to regard their holdings in the new ventures more as special tax contributions than as voluntary and profitable investments. Nor is it certain that young Qatari industries will survive in an economy with such a small local market and lacking substantial tariff protection.

The government envisages new industrial zones to house businesses close to the existing heavy industry complex at Umm Said south of Doha or in a new planned complex at Ras Laffan, in the north of Qatar.

In recent weeks, several new joint stock companies have emerged to swell the ranks of the dozen existing companies with multiple shareholdings and the three big industrial joint ventures. The new companies are:

■ An electricity and water company, with a paid-up capital of Qatar riyal 1bn ($275m) to run a proposed 600MW power and water desalination plant at al-Wassil. The state has a 40 per cent stake in the venture, and founder members – big companies and rich individuals – have been persuaded to take 35 per cent; companies such as Qatar National Bank and Qatar National Navigation and Transport have bought up to Qatar riyal 50m of stock, while personal founders' stakes are priced at Qatar riyal 2m. The remaining Qatar riyal 250m is to be raised by offering shares to the public, probably in April.

Although most of the company will be in private hands, the state's large stake and its control over both the cost of gas inputs and the price to be paid for the power and water outputs mean the government will have a stranglehold on its profitability.

■ The proposed Qatar Manufacturing and Industrial Company is expected to act as a kind of umbrella group for investment in industrial and small manufacturing enterprises. Studies have been commissioned from international consultants such as Klockner aimed at identifying areas into which private capital could be channelled. The government is taking a 20 per cent stake in the new venture and cash is in the process of being raised from private Qatari investors to cover the rest of the initial paid-up capital of Qatar riyal 400m ($110m).

The company, in spite of being privately controlled, will effectively act as an industrial promotion agency. The Ministry of Industry says it will hand over its feasibility studies to the new company for implementation. To date, almost 100 potential industrial projects have been screened by the government.

**Some private businessmen are unhappy about what they regard as the government's lack of business acumen**

Market studies have been made for more than 30 projects and officials say up to a dozen projects could be ready for implementation within a year. Possibilities include the production of raw materials for paints and the use of local gypsum for plasterboard. Incentives for industrial investors are being considered.

■ A company for tourism and recreational projects is being established and its foundation has been approved by official decree. It is to have a capital of Qatar riyal 40m.

■ The Qatar International Islamic Bank has also been approved. It is to have a capital of Qatar riyal 100m. Mr Faisal al-Slaiti, the managing director, says the seven-member board will be headed by Sheikh Ahmed bin Seif al-Thani, the Minister of Justice. The founders have taken up 20 per cent of the shares and the rest will be offered to the public soon.

**Hunter Reynolds and Victor Mallet**

## TECHNOLOGY

# Vying for the lead in chips

**Louise Kehoe on a summit of the semiconductor superpowers**

### Eagle eye

The pace of progress in semiconductors is accelerating rapidly as competition intensifies between the technology's "superpowers".

In memory chips and microprocessors, two of the most competitive segments of the business, the quickening trend towards faster, denser chips is particularly evident.

Last week, International Business Machines claimed world leadership in memory chip technology when it revealed that it had already manufactured, in small quantities, a 16 Mbit D-Ram (dynamic random access memory) chip.

The device is capable of storing four times as much data as the most advanced D-Rams available today and should be in high-volume production within two years, says Jim Picciano, site general manager of IBM's huge semiconductor production plant in Burlington, Vermont.

Leading Japanese memory chip producers including Toshiba, NEC and Hitachi are not far behind. The Japanese have already published details of experimental 16 Mbit devices and are believed to be well advanced in the development of commercial versions.

The main challenge in moving from 4 to 16 Mbits is how to shrink the features of the chip while maintaining the ability to store reliably the charges that represent the binary 1s and 0s of computer language.

The microscopic circuit patterns scribed on to the 16 Mbit chip are only 0.5 micron wide, down from 0.8 microns in the current generation of D-Rams. An important aspect of the IBM announcement is that these smaller feature sizes have been achieved using existing production equipment and techniques. That should greatly ease the transition from 4 to 16 Mbit devices.

IBM makes D-Rams for use in its own computers and does not offer them for sale. None the less, maintaining leadership in chip technology is an important part of the company's competitive strategy.

Jack Kuehler, IBM president, explains that IBM must work on three generations of memory chip simultaneously to *maintain its competitive edge*. Currently, it is manufacturing 4 Mbit D-Rams in large volumes, 16 Mbit chips are in pilot production and work has begun on designing and developing the manufacturing process for the 64 Mbit version.

The IBM 16 Mbit D-Ram was one of the highlights of the annual International Solid State Circuits Conference (ISSCC), held last week in San Francisco and drawing leading semiconductor engineers from around the world.

Unlike most technical conferences, the ISSCC also attracts the attention of investors, computer manufacturers, government officials and others concerned with the future of electronics technology.

It has become the yardstick by which the relative progress of the "semiconductor superpowers" is measured. This year papers from US researchers outnumbered those from Japan four to three, boosting the spirits of the predominantly American audience.

Counting the conference papers is hardly a reliable indicator of technological strength, however, and there is a growing belief that Japanese companies are becoming more circumspect about sharing critical information on technological advances.

When the first microprocessor was introduced by Intel in 1971, it contained 2,300 transistors. Today, the most advanced microprocessors contain more than 1m and semiconductor engineers are looking forward to building billion-transistor chips early in the next century.

James Slager, of Sun Microsystems, who chaired the session on microprocessors, says: "This year's papers describe chips with a twofold increase in the number of transistors and in performance compared with last year's chips and a six-fold increase compared with three years ago. Microprocessors seem to be improving faster than other types of chip."

Competition is the driving force behind the surge in development. "Several years ago, it appeared that the microprocessor field was maturing," he says. At that time the dominant manufacturers, Intel and Motorola, seemed to have achieved a critical advantage by establishing a large base of software written for computers built around their chips.

Over the past few years, however, that hegemony has been broken by the introduction of Risc (reduced instruction set computer) chips, such as those designed by Sun Microsystems and MIPs Computer. The battle between Risc and conventional microprocessors continues.

A new type of microprocessor, which could rival Risc, made its debut at the ISSCC. Researchers from Signetics, owned by Philips, described a microprocessor with "very long instruction word architecture." In computer jargon, a word is a chunk of data, so the description suggests that the computer can process very complex instructions.

Signetics' "Life" (long instruction format engine) chip can perform many more tasks simultaneously than a conventional microprocessor and also outperforms the Risc microprocessors widely used in computer workstations.

The prototype Life chip achieves an average processing performance of 80m instructions per second (Mips) — two to three times the performance of the latest conventional or Risc microprocessors.

Rather than attempting to compete head on with established types of microprocessor, which dominate the personal computer and computer workstation markets with their libraries of software applications, Signetics plans to aim the Life device at "embedded" applications where it will act as a booster to the performance of existing chips.

"The target applications for these high-performance engines are expected to be in image processing, speech recognition, robotics and other embedded systems, primarily in computing and military markets," says Shlomo Waser, marketing manager for microcontrollers and microprocessors at Signetics.

Other important advances reported at the conference include chips that will hasten the introduction of sophisticated digital telecommunications services.

The implementation of ISDN (integrated service digital network), offering simultaneous voice and data transmission, has been slower than many in the telecommunications industry had hoped. One of the main factors holding up progress has been a lack of standard low-cost chips that link computers and telephones to existing exchange equipment.

At the ISSCC, engineers from National Semiconductor and SGS Thomson described a jointly developed "U-interface" chip representing a critical component that has been missing from the ISDN system. The device allows high-speed digital telephone and data signals to travel on the existing telephone network, which was designed to carry slower analogue signals.

One of the challenges faced by semiconductor manufacturers has been to integrate analogue and digital functions on a single silicon chip. Another issue has been the lack of a standard protocol for the interface.

While other aspects of ISDN have been fully defined by the Comité Consultatif International Télégraphique et Téléphonique (CCITT), the organisation has not arrived at a standard for the U-interface. In part, this is because requirements for linking ISDN customers' telephones to existing public switching equipment vary from country to country. National and SGS Thomson hope to establish their U-interface chip as an international standard.

Theodor Irmer, director general of the CCITT in Geneva, says the chip represents "an extremely important step on the way to a global ISDN." According to Dataquest, the US market research group, U-interface chips will represent 43 per cent of an anticipated $300m market for ISDN chips by 1992.


### Easier route to PC network

ORACLE, the US computer software company, has developed a software tool that could simplify the task of linking PCs together in a network, writes Lynton McLain.

The software, running under the IBM OS/2 operating system, makes it easier for the PCs to use the data management facilities held on the central computer system, or server.

Oracle says the main benefit of this type of "client-server" computer system to the user of a networked PC is faster and easier access to central data. Without this type of network, each individual PC has to hold and manage a duplicate of a certain portion of central data.

The software companies Microsoft and Sybase have together produced a similar software package called the SQL Server to tackle the market for large organisations.

World sales of client-server networks are expected to reach 410,000 systems this year, rising to 2.7m in 1992, Oracle forecasts.

The Oracle Server software costs £1,395 per server, with unlimited PC connections. It requires an OS/2 compatible PC with at least 5 Mbytes of random access memory *and a minimum of 30 Mbytes* hard-disk memory.

● What do you do when a micro lands on your desk?

Some of the answers are contained in a book of that title to be published in March by the computer magazine Computer Weekly. The book is aimed at the individual using a computer at work, who has little knowledge of what a PC can do.

### Poll tax goes through the wall

THE DISTRICT council in Welwyn and Hatfield, in Hertfordshire, is claiming what many would consider to be a dubious first.

It is leading the stream of UK councils in the introduction of automatic cash payment machines for collecting the community charge — or poll tax.

The first machine, developed by Westinghouse Cubic, has been installed in one of the outside walls at Welwyn and Hatfield town hall. It resembles a cash dispensing machine, but instead of giving out money it gobbles it up.

The council has already distributed magnetically encoded payment cards to 1,700 poll tax payers, each card giving details of the person's identity. So, when someone wants to pay the tax in cash, they insert the card followed by the money — anything from a 5p coin to a £10 note.

The machine issues a receipt and then feeds the information to the council's central computer.

The hole-in-the-wall machines can be used for paying other charges, such as rent for housing or allotments.

### Where ozone is not wanted

ALTHOUGH the absence of ozone in the upper atmosphere can create an environmental hazard, it is its presence in the street or office that causes problems — particularly with breathing.

To ensure that the ozone emitted by desk-top laser printers is properly disposed of, a Danish company, Dansk Teknologi, of Allerod, has developed a filter which catalyses the ozone into harmless oxygen.

The Minozon ozone filtering unit, which is used in addition to the filter built into the laser printer, sits underneath the machine and funnels the emissions from the back of it into the Minozon, which needs to be changed annually.

On sale in the UK through Incotel, of London, the Minozon has already found a home under more than 8,000 laser printers in Denmark.

### Quicker access to data

LINKING computers into a network can result in the most efficient use of peripherals, such as printers or storage devices. But if all the users try to use the same data at the same time, processing can be drastically slowed down.

To help solve the problem, storage manufacturers are turning to solid state memory devices — in which D-Ram chips, instead of conventional discs, are used for storing the data.

Vermont Research Corporation, of North Springfield, has developed such a solid state disc which can be installed by smaller companies wanting to store as little as 8 megabytes of data on the chip device. (The maximum capacity is 80 megabytes.)

Although more expensive than disc drives — the cost of the Vermont devices works out at £300 per megabyte — data can be displayed on the screen up to five times as quickly as using more conventional magnetic media.

## WORTH WATCHING

Edited by Della Bradshaw

### Inside clues to animals' health

HOW does a farm animal tell you if it is unwell?

That vet's dilemma could be partly resolved by a European project to develop an electronic tag which is injected into the animal to measure a range of body indicators — temperature or blood pressure, for example.

That information will then be sent by radio to an antenna located in the sty, stable or field to inform the farmer of any problems.

Taking part in the European project, code-named Amies (animal monitoring and identification — the European system) are two Belgian institutions, the Catholic University of Leuven and Seghers Hybrid, Davy McKee, of the UK, and Sonnenschein Lithium, of West Germany.

The results of the research, which will continue for the next four years, could also help monitor when the animals are hungry or thirsty and so automatically trigger sustenance.

CONTACTS: Oracle: US, 415 598 8000; UK, 0932 872020. Computer Weekly: London, 661 3050. Westinghouse Cubic: UK, 0442 832647. Dansk Teknologi: Denmark, 42 27 15 00. Incotel: London, 348 1401. Vermont Research: US, 802 886 2256; UK, 0372 376221. Catholic University of Leuven: Belgium, 16 28 37 11. Davy McKee: UK, 0202 537000.

## BUSINESS LAW

# 'Garden leave' enforceable only in cases of real risk to employers

By Nigel Miller

What is to stop an employee from giving notice, setting up a business in direct competition, using the former employer's trade secrets and soliciting the former employer's customers? In the absence of well-drafted provisions in the employee's contract of employment, the short answer is: nothing.

The reason is that the courts will not imply into a contract of employment any restriction against post-employment competition and will imply only a limited restriction as regards the use of a former employer's trade secrets.

How then can an employer protect his business against employees' walking off with trade secrets or goodwill for the benefit of a competitor? The usual way is to include a non-competition or restrictive covenant in the contract of employment.

Non-competition covenants have been the subject of court actions for many years and there is every reason to believe that they will continue to be tested in the courts. Essentially they are regarded by the courts as being in restraint of trade and therefore void and unenforceable.

The courts' starting point is that you cannot prevent a person earning a living by using his or her acquired skills even if those skills were acquired at the expense of one employer and are then used for the benefit of another.

However, this consideration has to be balanced against the general policy that contracts that are freely entered into should be respected both by the parties concerned and the courts. In certain circumstances, therefore, the courts will uphold non-competition covenants in contracts of employment.

Whether or not they are upheld will depend a great deal on the circumstances of each case. The first thing that the employer has to show to defend the covenant is that he had a legitimate interest to protect.

Normally, this involves showing either that the employee possesses valuable trade secrets or that he (or she) has close connections with customers such that he might be able successfully to solicit their business for the benefit of a competitor.

Assuming there is a legitimate interest to protect, it is then necessary to show that the terms of the restrictive covenant are "reasonable," in relation to those interests. Reasonableness is normally judged in terms of the scope of the clause (that is to say, the activities that it seeks to restrict), the geographical area over which it is expressed to apply and its duration.

Generally, the longer the duration of the restriction and the wider its scope, the more difficult it will be to show that it is reasonable. For example, it might be unreasonable to restrict an estate agent specialising in commercial property from acting as an estate agent for residential property on the grounds that the customer base is likely to be different. Similarly, it might be unreasonable to restrict the estate agent who works in one town from working in another.

The courts tend to be more willing to enforce restrictions which are specifically targeted at protecting confidential information and the employer's customer base and goodwill (for example, a non-solicitation clause) than they are to enforce blanket non-competition clauses.

A relatively recent phenomenon known as "garden leave" has, however, emerged as a way of thwarting an employee defecting to a competitor.

Garden leave involves requiring an employee to give quite a long period of notice and then stipulating that he can be required to sit out the notice at home, still bound to make all of his time available to the old employer, therefore rendering him unable to start a new job.

The idea is that, while the employee is at home, his customer connection wanes and that of his replacement waxes. The employee is also meant to be denied confidential information which he might be tempted to use. Potentially, garden leave has the effect of a restrictive covenant without being subject to the difficulties associated with restrictive covenants.

The effectiveness of the garden leave tactic was recently tested by the Court of Appeal in a case involving Provident Financial Group plc. In that case, an accountant who was the financial director of their estate agency business was leaving to join another estate agency company. Some time after giving notice he was relieved of his duties and sent home with three months of the notice period remaining. Provident agreed to continue to pay his salary and other benefits until the expiry of his notice period, provided he did not work for anyone else.

However, the problem began when, before the end of his notice period, he started work for his new employer. Provident applied for an injunction. It was refused at the first hearing and took the matter to the Court of Appeal. The Appeal Court declined to upset the judgment of the lower court.

The court would not enforce the garden leave clause by injunction where the other business for which the employee wished to work had little to do with Provident's business. Although superficially the two companies were competitors, on closer examination it was found that no harm would be done to Provident if the employee started work early.

The Court reasoned that the employee has a concern to work and exercise his skills. It noted that it was recognised that this applied equally "to skilled workmen and even to chartered accountants."

That case has to be contrasted with the other leading case on garden leave involving the former production manager of the Evening Standard newspaper who wanted to leave the company to join Robert Maxwell's now defunct London Daily News.

The employee's contract of employment stipulated that he could not undertake any other work during his employment without permission and the court granted an injunction restraining him from working for the rival paper.

The difference was that the Evening Standard was prepared to continue to have the employee at work during the notice period and he was not, therefore, going to be deprived of work and left on garden leave.

The moral is that a garden leave clause will be enforceable only in cases where there is a real risk of damage being caused to the old employer if the employee goes to work for the new employer and that risk outweighs the inconvenience of enforced idleness.

Although the employer has to continue to pay the employee's salary and provide his other benefits while on garden leave, it can be a highly effective form of restrictive covenant in appropriate circumstances.

What about the competitor (perhaps a former employee) who embarks on a campaign to poach other employees? If the competitor is a former employee, then he should have been bound by a non-poaching covenant in his former contract of employment. But where there is no such covenant, is there any legal way to stop the head-hunter?

Again, the short answer is "no" unless the deprived employer can show that the poacher actively induced the defecting employee to break his contract of employment. He might break his contract of employment if, for example, he does not give proper notice or if he is subject to an effective restrictive covenant which prevents him working for the poacher.

An effective restrictive covenant on the employee could, therefore, allow the deprived employer to take preventive legal action against both the defecting employee and the poacher. However, establishing the necessary degree of inducement on the part of the poacher can be extremely difficult. Merely offering the employee better terms will not itself be sufficient to mount a claim for inducement.

Although the use of restrictive covenants has become relatively widespread, there is often a lack of understanding as to their legal implications. Employees may mistakenly believe either that they are free to compete as they wish or that the restrictive covenant prevents them accepting an attractive offer.

Employers on the other hand, whose employees may in many cases be their most valuable off balance sheet asset, need to be conscious of the danger of employees turning competitors and of the importance of keeping up to date with the measures that they can take to guard against this.

*The author is a partner in the City law firm Fox Williams.*

## THE COMPUTER MARKETPLACE





## LEGAL NOTICES

IN THE MATTER OF LAILAPA SHIPPING LIMITED AND IN THE MATTER OF THE CYPRUS COMPANIES LAW CAP 113

Notice is hereby given that the creditors of the above-named company which is being voluntarily wound up are required on or before the 22nd day of March 1990 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Mr Antony Haji Roussos FCCA of Julia House, 3 Themistocles Dervis Street, PO Box 1612, Nicosia, Cyprus, the liquidator of the said company, and if so required by notice in writing from the said liquidator, are personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 22nd day of February 1990
A Haji Roussos FCCA
Liquidator

Claire Bloom and Espen Skjonberg

Alastair Muir

# When We Dead Waken

**ALMEIDA THEATRE**

The ageing Ibsen regarded his last major work as an epilogue; not to his writing but to the naturalism that had imbued his theatre and which he planned to develop into abstraction, initially by means of heightened prose. The play – its style notoriously hard to translate, as Michael Meyer has pointed out – poses problems met successfully by the Almeida's design, less so by the David Rudkin's English version.

Peter J. Davison sets the work in a white angular corner of the new brutalism. The spa is suggested by terrace furniture; a catwalk supported on piers slopes up to the omnipresent mountains. In time this is filled in to become a solid ramp, its slant parallel to the straight proscenium edge that provides a skyline, so that the characters finally play out their destinies in a compressed parallelogram, an elongated television screen; and the fatal avalanche is represented by a shutter that slams down, sealing the box from our vision. The mountain itself is hinted in the background of a giant bas-relief of a heroic couple embracing or struggling.

Like *Hedda Gabler* the play (why, incidentally, do we lose that rhythmically graceful first syllable of "awaken" in the new title?) opens with newlyweds, even a wife recalling, like Hedda, a boring train journey. In echoes of other Ibsen plays we meet an embittered woman who blames an unresponsive man for her emotional crippling, and characters who look down on the splendour of the world and find it wanting; and who perish in their aspiration to the heights.

In the most obvious self-portrait Ibsen ventured, the famous sculptor Rubek muses on the increasingly antithetical relationship between life and art. His new wife Maja, young enough to be his daughter, is attracted to the rough hunter Wolfheim, a local squire with a dash of the woodland faun and, in Miles Anderson's intelligent playing of a near impossible part, of the Hooray Henrik as well.

Coincidentally staying at the spa is Rubek's former model. Now deranged and shadowed by a female keeper, Irena is obsessed by the great work of art her beauty helped create. As with Hedda Gabler and Lovborg's manuscript, she thinks of it as a child. But what emerges is the paradox of art that celebrates human beauty and nature and requires control and distance, a child born from a denial of humanity. She left him angrily at being used for inspiration: "You were an artist – an artist only, not a man."

Ibsen subjects the Renaissance idea of the artist as semi-divine to the scepticism of a secular age. If Michelangelo, in his great sonnet *Non ha l'ottimo artista alcun concetto*, could define the sculptor as simply revealing the masterpiece that crouches already formed in stone or marble, Ibsen counters with an earth through whose bursting crust vitality breaks with exuberant disregard for the rules of art.

The climax, as the older couple unite to ascend that symbolic mountain, is positively operatic, and may explain why the play's last London production was in 1946.

Jonathan Kent's direction brings off even the potentially risible florid gesture, aided by Nick Chelton's lighting which unashamedly tints the background green or red according to the emotional mood.

Visually fascinating, the production boasts good performances: from spaniel-eyed Susanne Burden, incisive and sensitive as Rubek's restless young wife, and Claire Bloom, as beautiful as ever in her return to the London stage. The Norwegian Espen Skjonberg's Rubek has a touch of a Nordic Ralph Richardson. Moments of authority suggest a powerful performance when the English lines are fully are control.

**Martin Hoyle**

CINEMA

# Good week for odd couples

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|---|
| BLAZE<br>Ron Shelton |
| DRIVING MISS DAISY<br>Bruce Beresford |
| SEA OF LOVE<br>Ted Kotcheff |
| DAD<br>Gary David Goldberg |
| CINEMA PARADISO<br>Giuseppe Tornatore |

"There goes your Mary Poppins," Paul Newman is said to have quipped when he and Julie Andrews watched the rushes of their bed scene in Hitchcock's *Torn Curtain*.

After watching a rough cut of *Blaze*, goodness knows what Newman might have said to Walt Disney if Walt still lived. Probably "There goes 50 years of family entertainment." Made by Disney's adult production arm Touchstone Pictures, *Blaze* is the bravest movie – and one of the best – yet put before us by the regime who have transformed the Mickey Mouse studio in this decade.

Thirty years before Gary Hart, here is the truth-based tale of rumbustious liberal political Earl Long (Newman), Governor of Louisiana by day. Long was a sexagenarian old goat by night: romancing, bedding and finally marrying the twenty-something stripper Blaze Starr. (He had to divorce his own wife first, an embarrassment the film rather skates over.)

Writer-director Ron Shelton, who mined wondrous human comedy from the May-December liaisons in *Bull Durham*, could have played this story for any one of several moods: farce, sentimentality, political satire. Instead he plays it for all of them at once. The film is beautifully rounded; it is also honest and grown-up, give or take the fact that Paul Newman, even with wild white wig and hoarsened voice, is still the most glamorous 60-year-old around. (The real Long resembled the back end of a bus, albeit an integrationist one.)

Shelton jolts us through the story in a *tableau vivant* style, as if Bertolt Brecht were alive and well and living in Baton Rouge. Nothing seems engineered: except when Shelton lays on a three-line emotional whip for us in the climactic scene when Long bursts like a thunderclap into a state senate debate rigged to pass segregationist measures. (He had made a vote-bargaining pledge to stay away.)

Beautifully played by smoke-haired Newman and flame-haired Lolita Davidovich (managing the amazing feat of being both sexy and motherly to a man twice her age), *Blaze* makes a stand against moral hypocrisy. In an age when good politicians are tumbled by sexual peccadilloes, leaving the stage to worse politicians with a cleaner sex record (or a greater skill at concealment), movies like *Blaze* need to be made. It says challenging things about the divisibility of public from private morality. It is not family entertainment: indeed it flopped in America, which is currently family-mad. But that Disney made it, and made it so well, is the first movie miracle of the 1990s.

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It is a week for odd couples. *Driving Miss Daisy* has crusty Southern lady Jessica Tandy ageing into friendship with black chauffeur Morgan Freeman as America pounds on through the Civil Rights decades. Screenwritten by Alfred Uhry from his Pulitzer prize-winning play, the movie glows with sweetness and light and has collected nine Oscar nominations.

If someone had told me I could fall for a film shot in amber-hued soft focus about two old softies learning how to hold hands across the colour bar, I would have helped that person into a padded van of their choice. But director Bruce Beresford, who has ventured before into the deep heart (*Tender Mercies*) and the Deep South (*Crimes of the Heart*), underplays majestically.

When the play was staged in London, Wendy Hiller drawled and declaimed like a Deep South Sara Siddons. Here, Jessica Tandy's Miss Daisy is an acerbic, incandescent question mark, with a deeply funny line in murmured put-downs. ("Ah hope I don't spit up," she says at a party for her unloved daughter-in-law.) Meanwhile Morgan Freeman drily sing-songs his "Yes, ma'am," "No, ma'am" responses until the script and the new liberal dawn allow him to fence as equal with his mistress. And Dan Aykroyd as Tandy's chauffeur-hiring-son – who cannot bear to watch his Ma reversing into the garden gnomes yet again – is a human balloon blown up with do-gooding bluster.

This is a chamber movie with the courage to stay small and resonant. A hundred other directors would have "opened it up" into something large and hollow. May it win Oscars, and shame on the Academy for not nominating Mr Beresford himself among the hopefuls.

*

I returned from the Berlin Film Festival to find a sea of rave reviews from my colleagues of *Sea of Love*, an Al Pacino thriller which opened at short notice last week. I have now caught up with it and must ask: Gentlemen – and ladies – are you off your trollies?

A more contrived potboiler than this would be hard to find. Here is Mr Pacino working for the police on a case involving the serial murder of nude men by a (supposed) hooker. Here is the supposed hooker (Ellen Barkin), a voluptuous blonde whom Pacino is soon de-knickering instead of dusting for fingerprints. And here is a plot so pasted-and-scissored from other movies that it resembles a three-way mix-up of *Cruising* (sex murders), *Fatal Attraction* (self-destruct carnality) and *The Big Easy* (Barkin is willing).

It is good to see Pacino back in business four years after being sandbagged by *Revolution*. But one wishes it had been in another movie. *Sea of Love* is one of those thrillers built entirely from gimmicks: it has no plausibility of plot or psychology, merely the brain-dead urgency of a script (Richard Price) and direction (Ted Kotcheff) leaping from one derivative trope to the next.

Paul Newman and Lolita Davidovich 'Blaze'

Week by week, movies travel in unwitting pairs. Both *Cinema Paradiso* from Italy and *Dad* from Hollywood are about sons learning from fathers, real or surrogate. In the schmaltz-prone *Dad* written and directed by Gary David Goldberg (of TV's *Family Ties*) from William Wharton's novel, Ted Danson is lured back to the parental hearth by Ma's illness and Pa's domestic helplessness.

Ma (Olympia Dukakis) is in hospital after a heart attack. Dad (Jack Lemmon) is not feeling too good, probably because he is weighed down by so much old man make-up. It is tough for Mr Danson to minister to these old dears: trading sentimental platitudes across the kitchen table, trying to project his voice over the syrupy music and then – kleenex, please, nurse – climbing onto bed with the aged P as he/she gazes into heaven amid a nimbus of memories. Steven Spielberg's company produced: which for almost any movie not set in outer space has become to mean death-by-winsomeness.

Far perkier is Giuseppe Tornatore's *Cinema Paradiso*, in which plumply rueful Philippe Noiret teaches his boy protégé the secrets of life, love and movie projection. In a small Italian town between the wars, what would you expect but lots of magic realism? We get it. In the cinema Noiret runs, the projection beam issues from a stone lion's mouth; the audience is full of schoolboys glowing in the dark at the sight of Brigitte Bardot; and when an accidental fire torches the building around M. Noiret, he naturally survives (though blinded) to hand on his own torch to the boy.

Wistful, but never winsome, the movie spends much of its time shaking red rags at papal bulls. To the rage of the local youth, the local Catholic priest censors every hint of sex from every movie. "Twenty years I've gone to the movies and never seen a kiss!" cries one film fan. But Noiret has his sweet revenge in the film's last and funniest scene. And everywhere the movie's broad unsentimental grin echoes his words to the growing boy, "What ever you end up doing, love it!"

One lasting consolation for Noiret is that he never had to screen *Monkey Shines* (18, Prince Charles) or *Winter People* (15, Cannon Tottenham Court Road). In the first, writer-director George A. Romero (*Night of the Living Dead*) wonders what would happen if a scientist (John Pankow) injected bits of human brain into a monkey and then donated the animal as pet-cum-helper to a quadriplegic (Jason Beghe). Would there be blood before bedtime? Yes indeed. And tears of boredom and distaste from the audience.

Archly scripted and stiffly directed (by Ted Kotcheff), *Winter People* has unwed mother Kelly McGillis falling in love with itinerant clockmaker Kurt Russell in snowiest Carolina. Time: 1930s. Problem: Depression (shared by audience). Consolation feature: beautiful scenery.

**Nigel Andrews**

# Schnittke

**WIGMORE HALL, RADIO 3**

Tuesday's element of the Schnittke celebration saw the return of the Borodin Quartet and the pianist Ludmila Berlinsky for the Piano Quintet. The context this time was Mozart and Shostakovich – the D minor Quartet K421 and Shostakovich's *First Quartet*.

The Mozart found the Borodin in marginally less convincing form than for their first recital on Saturday. The tonal balance and unanimity were just as wondrous as ever, but there was a tendency to equalise extremes, to contain everything within a single elegant envelope, so that much of the *tension in this most dramatic* of Mozart's quartets was defused.

The Shostakovich was equally relaxed, but more appropriately so; strange that a sequence of works that would end in the composer's final years with such tortured and personal statements should have begun forty years earlier with such a outward-going, vernal piece as the First Quartet, contemporary with the Fifth and Sixth Symphony yet sharing none of those works' fears and premonitions.

The Borodin's easy, limpid style here – nothing forced or arch, everything beautifully shaped – seemed beyond criticism, and made a perfect prologue to Schnittke's Piano Quintet, where the influence of Shostakovich is juxtaposed with that of a whole range of contemporary European styles, conjured something much more disturbing.

The quintet seems now one of Schnittke's most perfectly achieved works, and it would be fascinating to discover just how much Ligeti he had heard when it was composed in the early 1970s. The model for the tight bundles of pitches infiltrated by melodic shapes and the extended passages wholly *determined by texture* is unmistakeable, yet the fusion of those techniques with Schnittke's own "Russianess" is utterly personal, and the whole elegiac feel of the work (written in memory of the composer's mother) movingly sustained.

With Ms Berlinsky as a tactful and beautifully polished collaborator the Borodin dug deeply into the work's subtext; shortly they are to record it, and that promises to establish the quintet as one of the landmarks in contemporary chamber music.

**Andrew Clements**

# Eberhard Weber

**QUEEN ELIZABETH HALL**

The *technik* which gives bassist Eberhard Weber his *vorsprung* resides in the instrument and the blinking box of tricks which sits beside him. Playing in London for the fourth time solo, Weber brought with him his electronic, a custom built five string bodyless double bass with reverb and five second delay. This means, he explained, "I can play, so to speak, with myself." Mildly cheeky, he elaborated, it's never late and anyway it's not friendly to ask someone to play what you have already played.

The sound which results has an almost baroque feel to it, the plucked or strummed bass providing a repeating pattern over which Weber can bow, for example. The effect is not impressive simply from a technological point of view, however, for Weber is a superb musician and composer.

Now 50, he studied 'cello from the age of 6, picking up the *double bass in his teens*. In the 1960s he worked in TV and theatre moving into jazz rock in the 1970s and later joining the West German New Music label, ECM. With ECM, and particularly in collaboration with Norwegian saxophonist, Jan Garbarek, he found his metier: music to welcome in the New Age.

Showing off mostly new compositions this time, Weber filled the QEH with haunting and hypnotic melodies strung out on subtle rhythms. Equally happy up tempo, he also played some compelling and inspired slap bass. And just to show that he is a jazz musician after all, he encored with swinging bass line, overlaid with brushes and bowing, finally picking out something which closely resembled the Hot Club of France sound. All of which goes to show that a solo bass recital need not be a *test of endurance*.

Light but not lightweight support came in the shape of Human Chain, the Loose Tubes big band in microcosm. Comprising Django Bates on keyboards, guitarist Stuart Hall and drummer Martin France, the trio's synth, slide guitar, violin, horn and steel drum provided crazily *charming contrast to Weber's* meditative playing.

Weber plays Manchester Band on the Wall tonight, Edinburgh Queens Hall tomorrow and Norwich Arts Centre, Saturday.

**Garry Booth**

# The Seagull

**BIRMINGHAM REP STUDIO**

The attention excited by this chamber Chekhov production has nothing to do with casting, nor with the Rep debut of director Anthony Clark, a new arrival from Manchester's Contact Theatre. It is due, rather, to the unusual financing arrangement with the young actor playing Konstantin, who co-financed the show by dint of a series of cheeky celebrity interviews, thus ensuring himself a part in the play and a place in the annals of enterprise culture.

Neal Foster's determination to beat unemployment has a certain grandeur in the context of Chekhov's musings on the *suffocation* of youth, which is largely lacking from the production itself. Designer Liz Fjelle has set it in a garish Muncheean landscape of raucous colours within swirling topographical lines, which suggests an expressionist bleakness at odds with the elaborate period costuming. A bald white boulder, half submerged, provides the *performance area for* Konstantin's play, which is amusingly performed to a cacophony of homemade percussion that is almost as far off cue as the slaps of the assembled household at the clouds of lakeside midges.

Clark is good at drawing out Chekhov's humour, but his production suffers badly from a failure to knit his company together and find a consistency of theme and pitch. Some of the casting is quite unconventional, the rest is very conventional indeed. The most compelling performance comes from Michele Wade's Masha, who opens the play in a hysterical outburst that bellies out during the course of the evening to an alcoholic dementia which is at once funny and savage. In this actress's ability to let her mood fragment her features lies an echo of Munch's famous Scream, which is stylistically about as far as it could be from Konstantin's understated desperation.

Masha carries an anguish that also passes clean over the pretty head of Emily Raymond's Nina, whose schoolgirl gush is captivating enough but who as yet does not match it with emotional growth. To be fair, she is thrown into deep water by the casting as Trigorin of Peter Guinness, a strong actor more suited to brooding melancholy than suave cynicism, with the result that his perpetual *notebook scribblings* have an air of artistic underconfidence rather than social detachment.

The obvious cavill is that Guinness does not look old or sophisticated enough either to make a woman of Nina or ever to have crossed the monumental portals of Roberta Taylor's matronly Arkadina. Yet the suggestion that he is a son substitute, to an extent of which only Konstantin is aware, is interesting and potentially illuminating, if only it were carried through. Instead of presenting a rounded interpretation of Chekhov's poetic masterpiece, Clark has created a jigsaw of ideas and and styles that has yet to be assembled into a whole.

**Claire Armitstead**



# ARTS GUIDE

February 16-22

EXHIBITIONS

**London**

**The Tate Gallery.** The entire permanent collection has been rehung so that the visitor may now take a natural circuit through the newly restored galleries, from 16th century British painting through to the the most recent of modern international art. It is a curatorial triumph.
**The Royal Academy.** Frans Hals – the great retrospective, already shown in Washington and due to go on to Haarlem, of the work of one of the greatest painters of the 17th century Dutch school. Master of the portrait, he was all but forgotten for 200 years after his death in 1666, and he remains an enigmatic and controversial figure. Until April 8.
**The Royal Academy.** Inigo Jones, Architect – a full study and exquisite show of the intimate drawings and designs of the greatest of British architects, only excepting Sir Christopher Wren. Jones was architect to James I and Charles I. Greenwich Hospital, St Pauls' in Covent Garden and the Banqueting House in Whitehall remain to us as his masterpieces. Daily until February 25.

**Paris**

**Musée Carnavalet.** Paris in daguerrotypes celebrates the 150th anniversary of the birth of photography with an exhibition of some 150 old daguerrotypes completed by 30 modern ones. 31, rue des Francs-Bourgeois. Closed Mon, ends Feb 28.
**Musee d'Orsay.** The Fragmented Body. Parts of the human body, or the incomplete body form the leading strand of an exhibition beginning with ex-votos and reliquaries and culminating ina celebration of Degas, Bourdelle, Maillol and especially of Rodin with his masterly transition from realistic to abstract sculpture. Ends June 3, closed Mon, entrance Quai Anatole France (40494814).
**Centre Georges Pompidou.** Pavel Nikolaievitch Filonov. A solitary figure of the Russian avant-garde, he refutes cubism and futurism as contrary to nature's – and art's – organic development. "Every atom" of the surface of the 50 paintings and 150 drawings is given intense attention and basks in the light of idyllic harmony in cruel contrast to his own destiny. Closed Tue, ends April 30 (42771233).

**Brussels**

**Archives Générale du Royaume,** Grand Sablon, commemorates Belgium's short-lived declaration of independence from the Austrian Empire and the subsequent power struggle between France and Austria for control of Belgium. Daily, closed Sunday, ends 31 March.

**Milan**

**Castello Sforzesco.** Henry Moore retrospective. 49 sculptures covering the years 1938-1983. Ends March 25.

**Madrid**

**Centro de Arte Reina Sofia.** Antonio Saura. 70 works by the Spanish artist painted between 1956 and 1985. The exhibition focuses on four themes: Ladies, Crucifixions, Goya's dogs and Multitudes. Ends March 19.
**Palacio de Velazquez.** Art in Latin America. Ends March 4.
**Fundacion Juan March.** Ian Woodner collection of works by Odilon Redon. A very complete exhibition consisting of some 100 works in various media, illustrating the different aspects of the French symbolist painter's work. Ends April 1.
**Museo del Prado.** Following the highly successful Velazquez exhibition at the Metropolitan, the Prado is now host to the largest show to date of works by the great 17th century artist. Ends March 15.

**Barcelona**

**Palau de la Virreina.** Meret Oppenheim (1923-1983). Retrospective exhibition. Some 130 works by the German surrealist artist. Ends March 25.

**Hamburg**

**Kunsthalle Glockengiesserwall.** Ian Hamilton Finlay with works from the French Revolution. Ten of the Scottish painter's projects including reliefs and 40 graphic works are on show until Feb 28.

**Munich**

**Städtische Galerie im Lenbachhaus.** The most complete retrospective of the expressionist painter Karl Schmidt-Rottluff to date with 370 works from 70 private and public collections.

**New York**

**New York Public Library.** More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books, display the spirit and drive of the long effort to free the slaves. Ends Sept 15.
**Museum of Modern Art.** In its serious, thorough way, the museum gives its version of the history of photography, showing off earlier image-developing techniques along with 275 photographs. Ends May 29.

**Washington**

**National Gallery.** Highlighting this decade's renewed interest in printmaking in America, the 100 prints comprise a special exhibit borrowed from the collection of Joshua P. Smith, among them works from major contemporary artists including Jasper Johns, Richard Diebenkorn and Alex Katz. Ends April 8.

**Chicago**

**Chicago Historical Society.** The Land of Lincoln does its most famous citizen proud in the exhibition A House Divided, America in the Age of Lincoln, with documents; mementoes and personal effects of the Great Emancipator.

**Tokyo**

**Japan Folk Crafts Museum.** Woodblock prints by Shiko Munakata, a pioneer of the arts and crafts movement in Japan. The museum, in old farmhouse buildings, is a treasure-house of the traditional arts. Closed Tuesday.

SALEROOM

# Minor Impressionists

Sotheby's was delighted with the *demand yesterday for its* second division Impressionists and Moderns, those artists who are the foot soldiers alongside Monet, Renoir, Van Gogh, and their ilk. The morning session brought in almost £2.8m, with just 9 per cent unsold.

The top price was the £236,500 paid by a telephone bidder for a collage and gouache of 1917 by the Italian artist Mario Sironi depicting a lorry in an industrial background. Its high estimate had been £35,000. A typically depressing Bernard Buffet, *"Nature morte au comptier,"* in brown, yellow and white, doubled its estimate at £126,500 and a similar, composed of greys, went to the same buyer for £115,500, way above forecast.

In the afternoon, among the ceramics, a growing sector, a jug by Vlaminck, just over 6 ins high with a pattern of flowers, believed to be unique, sold for £11,495. A 12 inch high bronze produced in 1967 by Diego (brother of Alberto) Giacometti, "Le chat maitre *d'hôtel," depicting a cat holding* out a bowl, just about doubled its forecast at £27,500. Christie's sold a similar on Tuesday for £10,450.

Christie's auction covering the same market totalled almost £2m with 78 per cent sold. The top price was the £143,000, way above estimate, paid for an untypical view of cliffs painted by Buffet in 1955. The best price paid for Henri Lebasque being the £88,000 which secured a view of the St Pierre ponds; for Henri Le Sidaner the £66,000 for a village *in the snow; and for Henri* Martin the £26,400 for boats on the beach at Collioure.

A colourful gouache on paper by Léger of playing cards sold for £26,000 while a tablecloth torn into the shape of a dove by Picasso sold for £7,150 as against a £900 top estimate. The vendor had been at dinner with Picasso in Nimes after a bullfight in 1952 when the artist produced this.

**Antony Thorncroft**

FINANCIAL TIMES
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Telephone: 01-873 3000 Telex: 922186 Fax: 01-407 5700
Thursday February 22 1990

# The tide in Tokyo

WHEN MONETARY policy in the world's two biggest creditor countries is subject to simultaneous abrupt changes of tack it is inevitable that the rest of the world's markets should feel the backwash. The only question is whether London and Wall Street have been over-reacting to events in Japan and West Germany, where the recent rises in short-term interest rates have first undermined bond prices, then worried equity investors.

The sharp reaction in the US markets on Tuesday was attributed as much to the weakness in Tokyo as to a half-yearly statement from Federal Reserve chairman Mr Alan Greenspan to Congress which suggested that US interest rates would not come down for some time yet. But yesterday's less than panicky response on Wall Street to a spectacular fall of more than three per cent on the Nikkei index suggests that American investors are not completely mesmerised by nervous twitching in the much larger equity market on the other side of the Pacific.

The problem in Japan arises partly from an excess of stock market euphoria before Christmas, partly from the aggressive statements of a new president at the Bank of Japan, Mr Yasushi Mieno, who has been anxious to put a brake on monetary expansion. Successive increases in the Official Discount Rate, including the rise on December 25 which finally called a halt to the equity market boom, were prompted by understandable concern about domestic monetary conditions and by the weakness of the yen, which has been depressed by a capital outflow from Japan far in excess of the country's trade surplus.

## More fears

After the widely predicted, and thus heavily discounted, victory for the ruling Liberal Democratic Party in the election, an over-blown market had nowhere to go but down. Yesterday's plunge, which was exacerbated by technical factors, was driven by further fears about the Bank of Japan's interest rate regime. In fact the central bank has indicated that tightening is over for the moment. But the risk remains that nervous investors' fears could become self-fulfilling: panic at home encourages further capital outflows, which in turn weaken the yen, prompting further tightening in response to currency weakness.

The relative ease with which the US Treasury bond auctions were completed last week none the less suggests that nemesis is still some way off. The monetary problem in Europe, however, has become much more pressing since the West German Chancellor Helmut Kohl chose to speed up the process of monetary union.

## Fiscal strains

The size of the monetary overhang in the East can be exaggerated in relation to the much larger West German economy. But the fiscal strains likely to arise from absorbing the huge army of East German immigrants and providing emergency aid to those who respond to exhortations not to cross the border will be great. So, too, will the capital investment required to bring East Germany's ailing economy up to West German standards of productivity.

This increased demand for funds coincides with an investment boom in the rest of Western Europe. And since the Bundesbank can be relied on, against that background, to maintain a tight monetary rein, bond prices have been understandably soggy. On purely economic grounds a D-mark revaluation within the exchange rate mechanism of the European Monetary System might offer a practical solution to the immediate problem. But it is unlikely to happen in the short run because of the counter-inflationary symbolism attached by the French to the mark-franc parity.

Further ahead the development of eastern Europe as a low cost source of supply for the West should have a benign, non-inflationary impact. The Japanese economy is still healthy. And the fundamentals in the US are hardly catastrophic. Major shifts in monetary policy may be uncomfortable at the time. But if past form is any guide the Germans and Japanese will manage the transition without disastrous consequences.

# Canada's brave budget

CAUSING VOTERS short-term pain, and promising them more in the long term, is not a guaranteed way to win elections. But that was the option that Mr Michael Wilson, Canada's finance minister, took in Tuesday's budget, and his firmness is to the credit of Prime Minister Brian Mulroney's Government, which has not been noted for its political courage.

Rising interest rates have derailed the Government's fiscal strategy in the last two years. Last year's budget attempted to square the circle with a mixture of revenue and expenditure measures which was skewed disproportionately towards higher taxation.

Mr Wilson's 1990-91 budget represents a step forward. He has cut transfers to profligate provinces for funding post-secondary education and health care. Some federal programmes have been capped at 5 per cent growth, including science and technology grants, social welfare funding to the three richest provinces, defence and foreign aid. Petro-Canada, the national oil company, is to be privatised. This puts an end to the National Energy Policy, an ill-conceived strategy to buy out foreign oil companies.

There are two risks in the deficit-cutting plan. The first is that, as last year, higher than expected interest rates may undercut the assault on spending. Mr Wilson's forecasts of moderating inflation and falling interest rates seem over-optimistic.

## Inflationary risks

Any move towards lower interest rates – not easy in the context of rising rates worldwide – would push the dollar down and carry inflationary risks. The Government may well fear that continuation of tight money will depress the economy still further. Growth is already forecast at 1.3 per cent this year, half last year's rate; any further slowdown would raise welfare payments, adding to pressure on the deficit. But the most prudent option, given the inflationary pressures on wages, is to resist the temptation to ease and to make sure that the markets do not lose their confidence in the Bank of Canada's anti-inflationary zeal.

The second risk, given the gloomy economic outlook, is that the Government will lose its nerve. The Conservatives are at an all-time low in the opinion polls, and high interest rates and austerity will not help.

Mr Mulroney benefited in the last election from the weakness of the opposition Liberals, and the inability of the left-wing New Democrats to exploit opposition to the Free Trade Agreement with the US. Fiscal deficits, unfortunately, make poor election issues, and spending cuts are easy targets.

## Provincial transfers

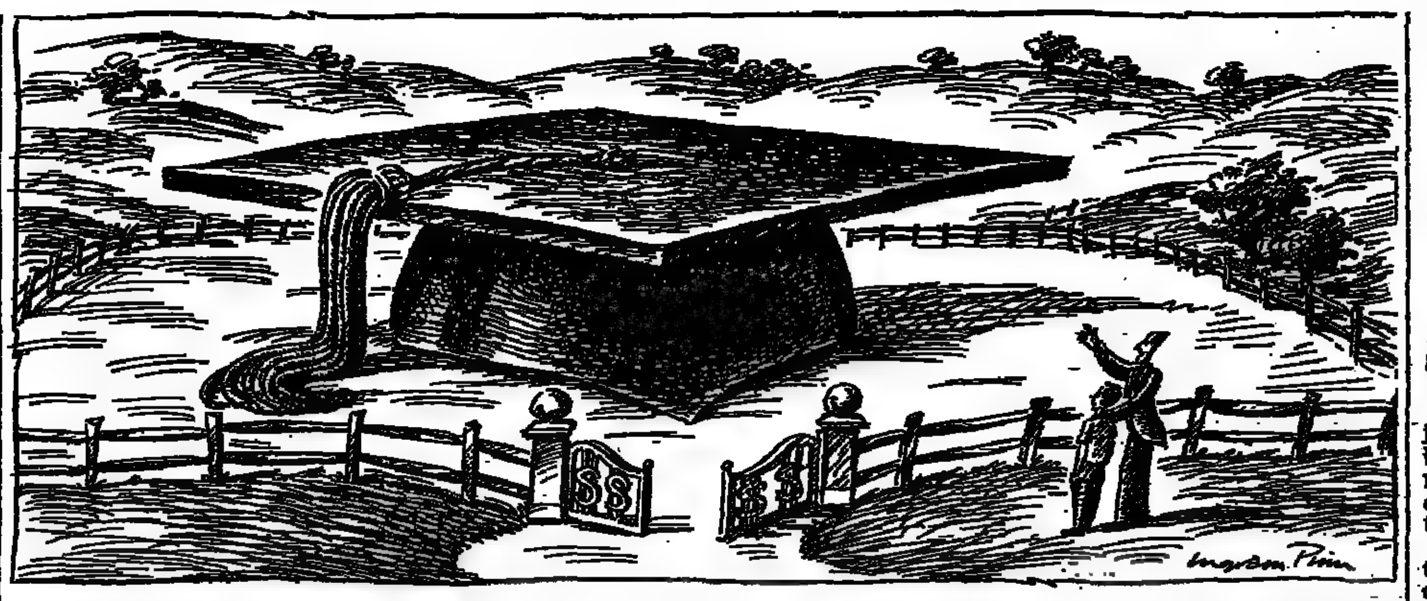
Against that, the Government has now shown itself willing to confront the sensitive issue of provincial transfers, an encouraging sign of stiffening backbone. The next step should be to re-examine the social spending network.

Across the board cuts are not necessary. But why not explain to Canadians that not everyone needs baby bonuses and other state entitlements? A starting point would be to examine the principle of universality.

On unemployment insurance, the Conservatives have a poor record. Although reforms of the creaking system are stalled in the Senate, the Government has virtually ignored the Macdonald Commission Report's call for sensible changes, and those of the Forget Commission Report, both pointed in the direction of greater selectivity.

The Government should also get to work on some of the more obvious structural problems in the economy, many of them detailed in last year's OECD report. Trade between provinces today is less free than trade between Canada and the US in the aftermath of the Free Trade Agreement, a ridiculous situation.

None of these reforms will be initially popular, neither was the Free Trade Agreement, which won the election for Mr Mulroney in 1988 and is beginning to show results. If he can convince the electorate that reforms are necessary, and assuming he can rely on the continuation of a divided opposition, he could come through again in 1993.



ECONOMIC VIEWPOINT

# A lesson in inheritance

**By Samuel Brittan**

Whenever politicians object to basic income or negative income tax schemes on the grounds that they encourage a dependency culture, I normally go on to ask if they are also against investment or inherited income, which have many features in common.

The country from which I would have expected some sympathetic echo was the United States, where share owning is widespread and non-work income runs into many billions of dollars. But it is in the US where hostility to handing over benefit is greatest.

Part of the explanation for this has now been provided in a fascinating paper* by Professor John H. Langbein of the University of Chicago Law School. Langbein concentrates on the top third to a half of the US population, whom he calls the middle and upper middle classes. He argues that the transfer at death, which was so long a feature of bourgeois culture, has almost disappeared among this group.

In the 19th century, ownership of a farm or firm rescued a person from a life of menial labour – what Marx called wage slavery. A parent's ambition was to leave a stake for his child, who would typically succeed when young adults.

The first big change highlighted by Langbein is that wealth transmission now occurs much earlier: during the educational process. The standard economic explanation is in terms of human capital. Skill embodies knowledge. New knowledge not only displaces old knowledge, but plant and equipment too. The correlation between education and income has often been demonstrated. In 1985 the median annual income of full-time adult male workers with only high school education was less than $20,000. For those with four years of college it was more than $30,000, and for those with more than four it approached $40,000.

An American parent contributes much more to the cost of university education than his European counterpart, especially in the case of private universities.

Langbein cites the case of a Mr C.Y. Lu, who had the misfortune to have one son at Princeton and another at the Harvard Law School. Mr Lu sold his investments and took a second mortgage to raise $140,000, saying: "I've told my sons: your education is going to be your inheritance."

The second big change is the need to provide for a now lengthy old age. This has been facilitated by the rise of "annuitisation", that is the process of allowing a person to consume his capital at a steady rate with a built-in insurance against living too long.

Pension funds are the most obvious example. Indeed there are irresistible tax incentives for people to save through pension funds. Pension wealth is consumed over the lifetime of the citizen and his spouse; only a negligible fraction goes into intergenerational transfer. Greater life expectancy and the availability of pensions have been the fatal blows to conventional wealth transmission.

As in the case of education, the pension revolution does not affect the minority of very rich. Dynastic wealth cannot be stuffed into a pension fund, if only because of the tax exemption ceilings. College bills also make little dent in large fortunes; and there are intrinsic limits to how much education an individual can absorb, which are reached well before the really wealthy would begin to notice.

Nevertheless, the middle-class revolution has created new social norms which are beginning to affect old notions of inheritance even among the plutocrats. Langbein mentions Mr Warren Buffet, chairman of the Berkshire Hathaway Holding Company, whose personal wealth is estimated at $1.5bn (equivalent to the budget deficit of many middle-sized countries). But Mr Buffet plans to leave his children a mere few hundred thousand dollars. He is clearly aware of the analogy between an inherited private income and state benefits. For he says it would be antisocial to set up his children "with a lifetime supply of food stamps just because they come out of the right womb."

**Longer life and pensions have been fatal to wealth transmission**

A New York entrepreneur, Eugene Lang, plans to disinherit his children "to give my kids the tremendous satisfaction of making it on their own" – not a satisfaction which many European children would fight to possess.

These are still minority attitudes among the American plutocracy. However their spread suggests that conventional wealth transmission is losing some of its legitimacy – a loss which is easier to understand when wealth takes the form of paper titles than when it is a family mansion and estate.

How desirable are all these changes?

On the educational side, the human capital view is open to challenge. Higher education may operate as a filter rather than as a source of useful knowledge and training. According to the filter theory employers use educational success as a short-cut method of selecting able and well-motivated recruits. But that does not mean that they fully value the additional skills the graduates have acquired.

Higher education may also be a "positional good." It is desired because of its scarcity and would be much less attractive if everyone had it. According to this theory, even if the educational standard of all liberal arts colleges were raised to that of Harvard and Yale, it would not help – because part of the attraction of the Ivy League is belonging to a privileged minority.

The human capital, filter and positional goods theories may all be partly true. The heretical variants do not weaken the case for expensive educational investment by the individual family; but they do suggest some deadweight loss on the part of society – unless higher education is regarded as a consumer good, or valuable for its own sake, which is equally subversive of the human capital view.

The disappearance of so much family wealth into pension funds is also debatable. It does not just represent an innocent desire by household heads to consume their capital during their lifetime. The process is encouraged by tax privileges which, as in Britain, almost compel people to take out pension schemes.

Would not capitalism with a human face take a different route altogether and extend to the whole population that "modest competence" which enabled 19th century writers such as Jane Austen and Charles Darwin to carry on their work without having to wonder where their next crust of bread was coming from? The only thing wrong with unearned income and inherited wealth is that too few of us have it; an argument which points to changing the death duty system into a genuine inheritance tax and for moving towards a basic income which will benefit those unlucky in their choice of parents.

Continental Europe has not gone nearly as far as the US along the road marked out by Langbein. In particular the substitution of educational expenditure for conventional wealth transmission is less advanced. Governments are more involved and try to iron out differences between universities. Tuition fees are negligible and students live at home, so education is less of a threat to wealth transmission. But because of higher taxes there is less wealth to transmit.

**New middle-class norms are beginning to affect old notions of inheritance**

It is not an accident that European culture is friendlier towards both inherited wealth and state benefits than American culture purports to be. But Europe rather than the US may be the pointer towards the future. For as societies become richer, both types of cushion become more desirable and more affordable. They will also become indispensable if there turns out to be environmental or social limits to growth.

*"The 20th Century Revolution in Family Wealth Transmission. William S. Hein & Company, Inc. 1285 Main Street, Buffalo, New York 14209.*

BOOK REVIEW

# From Medici to Milken

INVESTMENT BANKING:
A Tale of Three Cities
By Samuel L. Hayes III and Philip M Hubbard
*Harvard Business School Press, $35*
*Harper Collins, £25*

The demise this month of Drexel Burnham Lambert, which created the junk bond market and made billions of dollars out of it, marks the symbolic end to a decade of explosive growth in the world's securities markets.

It was growth which fuelled the speculative trading not just of stocks and bonds, but ultimately of mighty companies. To most of us, the junk bond market looked like an accident waiting to happen. To an investment banker, whose business it is, it was a classic example of how to squeeze as much as possible out of a good idea before the competition spoils the fun. Investment bankers make a lot of money because their ephemeral ideas can make a lot of money. The spectacular expansion of the business exposed their shortcomings as managers and, with industry contraction setting in, many now face an involuntary change of career.

But they are often among the brightest of their generation, separated from the many, whose daily toil reaps more modest material rewards. This book, by Sam Hayes, a Harvard Business School professor, and Phil Hubbard, a former senior teaching fellow at the school and now a London-based financial consultant, is a history of the breed from the Medicis to Michael Milken.

As it makes clear, many of the problems they face now are perennial. In an early example of a sovereign debt default, for example, the Medici bank closed its London office and took substantial write-offs on its loans to Edward IV. In the early 1920s, the US Government was worried that a junk bond market was developing in New York – the speculative loans being raised by foreign governments.

While capital recognises fewer and fewer boundaries, the same cannot be said for investment banks. Those successful internationally are usually working from a strong home base, and following their clients overseas. Each market remains distinct for cultural and historical reasons.

The book, examining the big three capital markets, London, New York and Tokyo, illustrates its conclusions through three firms: Salomon Brothers, Nomura and Credit Suisse First Boston. All three could be said to be atypical. The three brothers Salomon established a money broker in 1910, and it never became part of Wall Street's blue-blooded establishment.

Nomura has grown into the world's largest securities house from a money-changing business founded in 1878. While playing a central role in commerce – Japan did not have a single currency at that time – money changers were almost the bottom rung of the social order. Even now, the firm is said to find it hard to recruit the best Japanese graduates, who still prefer the Ministry of Finance or, failing that, a Tokyo city bank.

CSFB has made its own tradition. Starting as Credit Suisse White Weld, it combined the investment power of a Swiss bank and the ability to innovate of a US investment bank. Last year, the seal was set on CSFB's success when it in effect swallowed the US parent, First Boston. It has been one of the few joint ventures to succeed in the international securities business, despite the tensions that at times threatened to tear it apart.

Salomon's unequalled success among foreign securities firms in Tokyo has been, the book suggests, because the strategy of careful expansion pursued there has contrasted with its macho style in London and New York. This style led to a big mistake: Salomon's sudden withdrawal from the municipal bond markets and money markets in October 1987. These were markets in which it had built leading positions, and the suddenness of the departure damaged valuable client relationships.

The authors are critical of those firms which voluntarily submitted themselves to the tyranny of quarterly earnings reporting by going public. Many firms went public in the 1980s, ostensibly to expand their capital, but too often to allow their partners to get rich quick. Taking partners' capital out of these firms is rather like burning the furniture to keep warm, and is unnecessary.

They are rather sniffy about the way Mr John Gutfreund, the chairman of Salomon, sold the store in 1981. "Over long periods of history, capital has followed the path of talented people who can use it productively," they say.

Samuel Hayes has taught many of the brightest in Wall Street. Bruce Wasserstein and Joseph Perella, the takeover experts, were just two of his students. But from this stems the book's shortcoming. It is an insider's view; and success and failure are defined in investment bankers' terms. The wider consequences of their actions – for example, the débâcle in the junk bond market – are not examined. The only questioning of the excess of the 1980s is from Henry Kaufman, Salomon's former chief economist. Worried about Wall Street's shift toward "speculative capitalism," he is quoted as saying in 1985: "We are all going to be tainted by this entrepreneurial drive."

**Stephen Fidler**

# OBSERVER

## Waterloo customs

■ Philip Nash retired yesterday as the Commissioner of Customs and Excise responsible for policy and planning in such areas as customs control of passengers and freight. In other words, he was the man who ensured that you might be stopped at Heathrow or Dover in case you were trying to bring in anything illegal.

Nash had just presided over one of his department's most important policy decisions: the ruling that passengers arriving at Waterloo through the Channel Tunnel must go through customs when they leave the train. He has very strong views on the subject.

Nash says that the high point of his career was when he made the speech at the customs management annual dinner 2½ years ago. The guest of honour was Lord Cockfield, then the European Commissioner most associated with 1992 and a Europe sans frontières. Nash told him in no uncertain terms that the UK must keep controls at its borders.

That is more or less what has happened, as was confirmed in a written parliamentary answer yesterday. "Possibly because we are an island," he argues, "preventive controls are effective." The main concern now is keeping out drugs, but Nash says that officers will be also be looking for pornography, rabid animals, firearms and anything else that it is illegal to bring in. Thus the familiar red and green exits, for those who wish to declare or not, will be installed at Waterloo.

Nash has been at Customs and Excise since 1950. He is retiring three weeks before his 60th birthday in order to take a holiday. First port of call will be Iceland, a country he discovered last year. "They have very strict customs there," he says. "Everything is screened".

Afterwards he will put his feet up and may write his memoirs. "The trouble is," he adds, "the best bits probably can't be published. There might be two or three chapters on the Treasury and it would be very difficult to publish those."

## ICI's new line

■ An innovation at the presentation of ICI's annual results in London today. East European journalists have been invited to attend; nine have accepted – from Yugoslavia, Poland, Czechoslovakia and Hungary.

ICI said the invitations went out because the company needs to get nearer to its customer base in Eastern Europe. It used to be a matter of dealing with a command economy and particular ministries. Now ICI has to deal more directly with customers. It has already sizeable sales there for powdered paints for such consumer goods as bicycles and sewing machines in Leningrad and is looking for more.

## Fallen angel

■ Curators at the Athens National Gallery have found a six-inch slit in an angel's robe in the Concert of the Angels, a prized work by El Greco, which was bought by a Greek collector in Germany in the 1930s.

Nobody is sure when the canvas was damaged. The cut had been "amateurishly painted over" and was noticed last month during an inventory of the collections, according to an official at the Gallery.

The discovery comes at an embarrassing time: this year marks the 450th anniversary of El Greco's birth in Heraklion on the island of Crete. A top academic seminar is being held there in September to celebrate, followed by an exhibition of his work.

The Concert of the Angels is one of only a half-dozen works by El Greco in Greek public collections, and although it is the biggest, it is only the top half of the painting. The bottom half, with the artist's signature, belongs to the Banco Hispano Americano in Madrid.


"I think I just snorted a bit of caterpillar up my nose."

## Bugs and mice

■ At Laing Properties, the object of a hostile takeover bid from P&O, the problem with the telephones was bugs. At Stratagem Group, the investment company which is making – and yesterday almost completed – a hostile bid for Colonnade Development Capital, the problem was mice.

At least it was on Tuesday afternoon when activity was at its height. Two small beasts were seen to move into the system, which then broke down. Although there were mobile telephones available, they were not enough for the volume of traffic. Bernard Kerrison, the Stratagem chairman, eventually went in with a screwdriver and did a repair job. The Telecom engineer told him yesterday that it was not at all bad, though he had mixed up some of the fuses.

The mice have been named James and Capel, after the advisers to Colonnade.

## Women's ways

■ Extraordinary how bitchy women can be about other women. Mention Glenda Jackson, for instance, the actress who is seeking to become a Labour MP. All you mean is that you think that, if elected, she would add to the variety of the House of Commons, as indeed would Sebastian Coe, the athlete, who is seeking to become a Conservative MP. But if you mention Jackson to women, you are liable to get an earful. "Opportunist, carpet-bagger, past it, can only speak other people's lines, incapable of original thought and not a very good actress anyway." That sort of thing. I think that we should wish her the best of luck – and Coe as well.

## Turkish tales

■ Jokes about Yildirim Akbulut, the Turkish Prime Minister, are now sweeping Ankara. He and his wife and their imaginary Moscow visit at Swan Lake with the Gorbachevs, but alas Akbulut falls asleep and starts snoring. After a while his wife can stand it no more and prods him in the ribs. The premier wakes up and, fearfully embarrassed, asks if anyone noticed. "Of course they did, but these Russians are so polite: they are all going around on tiptoes," his wife replies.

Back in Ankara, the Prime Minister gets into a taxi. "Have you heard the latest Yildirim Akbulut joke?" asks the driver. "I am Yildirim Akbulut," says Akbulut stiffly. "Oh, well, then I'll tell it you very slowly," says the driver.

**John Plender** looks at relations between management and institutional investors

# A rocky boat in the City

The great and the good in industry and the City are not given to rocking the boat. But where the relationship between management and institutional investors is concerned, this self-denying ordinance is inoperative. A collection of surprisingly outspoken essays* by prominent industrialists and financiers, published today by the National Association of Pension Funds, reveals fundamental disagreements over the way market capitalism could and should work.

The heat in the debate, which will be instantly recognisable to embattled financiers on Wall Street, is generated chiefly by the impact of the recent takeover boom. According to Sir Hector Laing of United Biscuits, Britain's totally free market in corporate control "is seriously damaging to the nation." The investment institutions, he says, should work out "a concerted policy on the damaging effect of destructive speculation and wild takeover operations." Mr David Hopkinson, the former head of M & G Investment Management who is now chairman of Harrisons and Crosfield and deputy chairman of English China Clays, refers to "a deplorable decline in relations between the City and industry during the last three years." The word City, he adds, has become a term of abuse.

From the Square Mile Sir Martin Jacomb of the investment bank Barclays de Zoete Wedd complains that UK companies do not often regard the maximisation of their share price as an objective. Yet Mr Jonathan Charkham of the Bank of England worries about investors for whom the maximisation of share prices is all. "What the company itself does is largely irrelevant: its staff are of no consequence. It is a line on a chart, an object of risk assessment, a percentage point in an index matched fund, a name on a spreadsheet. Nothing matters about it except what may affect the immediate movement of its share price, such as a change of fashion, a brokers' lunch, a market rumour of disaster, the whisper of a bid. It is a buy at 180 and sell at 230."

Referring to other financial systems, such as Japan's, Mr Charkham says that "other things being equal, patient money will always beat impatient money in competitive situations" and that the nature of the domestic capital market puts British boards at a disadvantage.

Most of the contributors would none the less probably go along with the conclusion of the joint Confederation of British Industry-City task force which suggested in 1987 that it would be unrealistic to try to re-model the UK financial system on West German or Japanese lines. But if the banks or bureaucrats are not to play an increased role in monitoring British industrial performance, what alternatives are available?

Since the early 1970s the conventional response in Britain to this question – which is only now being echoed in the United States – has been increased intervention by the big insurance companies, pension funds and other institutional investors. Yet in practice the institutions have been slow to make the transition from investors to owners. They have more often exercised discipline by sanctioning takeovers when the process of industrial decline or managerial underperformance is well advanced than by taking pre-emptive action. Despite their misgivings about the record of such industrial giants as BAT Industries or GEC, the institutions have shirked confrontation with managements whose stake in the business is negligible in percentage terms.

The workings of an open market in corporate control, meantime, throw up results that industrialists understandably find curious. It is not clear to all the authors, for example, that DRG, the packaging and office equipment group, stands to benefit from the recent highly-leveraged bid from Mr Roland Franklin, given his experience with leverage at Keyser Ullmann in the mid-1970s. That episode led to provisions and write-offs of more than £100m and rescue by the Bank of England.

Nor do some industrialists see what a company like Rowntree, which had invested heavily and successfully in brands, stood to gain from a takeover by Nestlé, which had failed to match Rowntree's performance in building confectionary brands in the UK. Sir Hector Laing quotes with approval Mr Lee Iacocca of Chrysler: "choosing to modernise your factory instead of increasing your dividend might make shrewd business sense, but it is also like putting fresh blood in the water – a sure fire way to draw the sharks."

At the heart of arguments about short-termism in the takeover market lies the problem of dual pricing: bidders will always pay a premium over the price at which the stock market values a given company on a day-to-day basis. How far the valuation difference is due to the tax system, negative goodwill relating to poor management performance, or the fact that control of a company, as opposed to a small stake, naturally commands a premium, is a matter for debate.

Yet the existence of the premium means that investors cannot lightly turn down a takeover offer for fear of the impact on their investment performance if the share price falls after a successful bid defence. It also means that financiers can make huge fees on bids and deals by encouraging raiders to bridge the valuation gap.

The opportunistic climate has been fostered by deregulation and Big Bang in the interests of a questionable increase in liquidity that is scarcely designed to bind institutional investors more closely to industry. As Mr Hopkinson puts it: "Whereas two years ago the majority of the people in the City were working primarily for their clients and only secondarily for their own profit, the reverse is now the case, with the majority putting self-interest first and the devil take the client. This is clearly an overstatement, but the change in attitude of mind, which is particularly prevalent among younger people, has been accompanied by an arrogance that one does not meet elsewhere in public affairs."

The Bank of England is attacked by Mr Hopkinson for its role in generating these changes, while the International Stock Exchange is criticised for lack of concern over private shareholders.

Solutions in this area are notoriously more difficult than diagnosis. But most of these writers agree that part of the answer to short-termism is better communication between companies and institutional investors. But how complete an answer? Sir David Plastow, chairman and chief executive of Vickers, is a keen advocate of investor relations. Yet this has not protected him from the unwelcome attentions of Sir Ron Brierley, the New Zealand raider.

In the meantime many industrialists who double up as pension fund trustees are over-awed by the Pandora's box of performance assessment techniques opened up by the consulting actuaries. They do not follow Mr Hopkinson's advice, which is to discuss performance figures at most once a year and to make a major review of portfolio performance and strategy every three or four years. Nor do most merchant banks, for whom performance figures are a marketing tool and takeovers an opportunity for instant performance enhancement.

As for a more active institutional role, most of the essayists are in favour. But at the Prudential, which has long played a creditable part in trying to replace bad incumbent management in some of Britain's larger companies, Mr Ron Artus counsels against excessive optimism. There are limits to what the institutions can achieve.

With the collapse of the junk bond market and a cooler climate for takeovers the tensions may abate a little of their own accord. But the past three years have left an urge among some industrialists for non-market solutions. Sir Hector Laing is for reciprocity in relation to foreign bidders and for killing bid arbitrage through restrictions on voting rights. More surprisingly, the chairman of Legal & General Group Sir James Ball wants the very un-City expedient of two-tier boards. What seems clear is that owner-manager tension is in-built. The differences have at least been frankly aired in these essays.

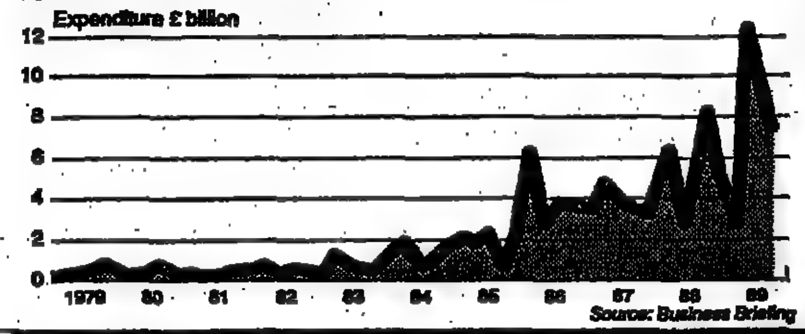
* *Creative Tension? The National Association of Pension Funds; £10.*

**Percentage holdings of UK equities**

| Source | 1963 Diamond | 1975 DoI. | 1978 Wilson* | 1981 SE | 1989 Phillips & Drew |
|---|---|---|---|---|---|
| Pension funds | 7.0 | 16.8 | 20.4 | 26.7 | 29.0 |
| Insurance companies | 10.6 | 15.9 | 17.2 | 20.5 | 25.0 |
| Inv. trusts and financial companies | 9.0 | 10.1 | 9.4 | 7.1 | 3.0 |
| Unit trusts | 1.2 | 4.1 | 4.1 | 3.6 | 6.0 |
| Total institutions | 27.8 | 46.9 | 51.1 | 57.9 | 63.0 |
| Persons | 58.7 | 37.5 | 33.2 | 28.2 | 18.0 |
| Charities | 2.7 | 2.3 | 2.6 | 2.2 | 2.0 |
| Industrial and commercial | 4.8 | 4.1 | 4.1 | 5.1 | 4.0 |
| Government | 1.6 | 3.6 | 4.0 | 3.0 | 5.0 |
| Overseas | 4.4 | 5.6 | 5.0 | 3.6 | 8.0 |
| Total % | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Value £ bn | 27.0 | 45.0 | 63.0 | 92.0 | 480.0 |

* P&D estimates for non-institutional holdings. Source: Phillips & Drew

**Value of takeover bids in UK market**




Source: Business Briefing

**Congestion in London**

# Travellers could ride and not 'mind the gap'

**By Stephen Glaister and Tony Travers**

There is a yawning gap between the capital costs of new railways and the revenues they appear capable of earning. Government statements last year signaled a more generous policy towards bridging it. Even so, it is now plain that the contribution of new lines to solving the problem of congestion in central London is going to be limited. Moreover, confirmation this week by Cecil Parkinson, the Transport Secretary, of a continuing major roads programme will make little immediate difference. The only realistic option is to make better use of the transport assets we already have. A great deal could be achieved quickly and at little cost by the humble omnibus. Road pricing and the bus taken together make a package which offers a marked and long-term improvement in the quality of life in London.

Last spring in a paper entitled Transport in London, Mr Paul Channon, Mr Parkinson's predecessor, said: "I want to see demand for transport met, not suppressed. And I want to see London paying its own way." Rail investments would be financed by passengers and those land owners who benefit, with a relatively small public sector grant in recognition of social benefits such as relief of traffic congestion.

Events since have shown that the private-sector contributions are nowhere near enough to fill the gap. Mr Parkinson announced the cost of the Jubilee line extension as £1bn *at today's prices*. Docklands developers' contribution will be about £400m *cash*; the real discounted present value of this contribution will be less, since it will be paid over a period of years. So the lion's share of the financing is to be found by public sector grant. It is unlikely that developers would give as readily to other rail investment as those in Docklands gave to the Jubilee extension.

One implication of Mr Channon's statement is that all transport prices should be appropriately set. In the case of the overloaded Underground, fares should be raised. This would increase internally generated revenues, which could be used to expand investment and to employ sufficient staff to keep the existing system working to its potential. Fares have not been keeping pace with growing personal disposable incomes and so it is not surprising that in a labour-intensive industry London is getting an under-staffed, increasingly overloaded system the quality of which falls below the rising aspirations of its increasingly well-off users.

But the Transport Select Committee reported that it was unconvinced by the case for raising fares. Subsequently the Secretary of State restrained BR and LRT proposals to raise fares by the amount the operators had thought to be appropriate (FT, November 3).

The fact that politicians of all parties are not prepared to live with the consequences of fares increases poses the question of whether it is politically feasible to ration London's public transport by price and to raise enough money to finance effective investment. Because fares are to be held down, rationing will actually be by the crush and more station closures.

So, developers will not pay enough and passengers will not be made to pay. Proposals for new methods of specific tax-financing have not found favour. Apart from doing nothing any other solution will have to meet at least three criteria: it must cost the Treasury little; it must provide for London's growth; and it must improve the quality of life.

New road building on a grand scale in inner London is expensive and politically difficult – it fails the cost and the quality of life tests. But the bus could achieve so much more than it does at present at a fraction of the capital cost of new rail investment. Forty per cent fewer bus passenger journeys are made now than in 1966; bus miles run are down 31 per cent. Recently, all the attention has been on the big rail investments while the capital invested in London buses has been allowed to fall. More, newer buses and more frequent services with improved travel times should push up the number of riders on buses towards what it was and take pressure off the more congested parts of the Underground.

The bus is inherently more flexible than rail in the face of future uncertainties. But the bus can only succeed if speed and reliability are improved. A recent estimate is that if London's buses could achieve their early morning speeds throughout the working day their financial losses of about £100m a year would turn into a small profit and, additionally, passengers would save time to the value of at least £100m a year.

Improved parking policies and rigorous enforcement would help. But the most attractive option is to do things properly and implement a package including road pricing: a system of charging all vehicles for their use of congested London road space – for example by electronic monitoring or by a less sophisticated system such as the display on windscreens of a paper permit of the sort used for the road fund licence. This is feasible and, properly designed, it would reduce central area traffic congestion, and speed up buses and taxis.

It would also provide substantial revenue for reinvestment in minor road improvements, the improved bus services and a contribution to some of the Underground rail schemes. It would render the surrogate "road-pricing" role of on-street parking charges redundant and release their enforcement resources for prevention of irresponsible parking in places where it restricts traffic flow.

Improved bus services with or without road pricing could produce benefits for London in a very short time. No new Crossrail-type of development, even if the Government announced the beginning of seeking Parliamentary powers next autumn, could be operating much before 2000.

A new balance between buses, cars and the Underground could allow London to continue to develop as a world city without vast Treasury or developer contributions. Buses should be given a chance.

*Stephen Glaister is Cassel Reader in Economics and Tony Travers is Greater London Group Director of Research at the London School of Economics.*

# *LETTERS*

## The auditor's positive business contribution

*From Mr B.G. Jenkins.*

Sir, I regret recent comment on the decreased value of audit in the light of the Caparo decision and the apparent expectation gap in fraud (Lex, February 12 and Letters, February 13 and 20). The impression given is that auditors are negative and protectionist.

I appreciate the difficult practical and legal bars on providing all that might be considered desirable from an audit. However, that presents a challenge, not a refuge to the auditor. We have tried hard to open up debate on the content and value of the audit process and report, the contribution we can make to the fight against fraud, and how we can make accounts more useful, particularly in relation to brands and other intangibles.

We believe the auditor should make a positive business contribution. Certainly in this firm our objectives and strategy are to understand what our audit clients want and strive to meet their requirements to the best of our ability.

B.G. Jenkins,
*Head of Audit,*
*Coopers & Lybrand Deloitte,*
*Plumtree Court, EC4*

## Labour's view of the City

*From Shauna J. Mackenzie*

Sir, One detects in Marjorie Mowlam's observations following the collapse of Drexel Burnham Lambert (Letters, February 20) some of the Labour Party's mild obsession with the evils of takeover activity. There are a number of factors present in the UK which would suggest that the US experience is never likely to be repeated here, evidenced not least by the failure of a junk bond market to thrive in the UK even prior to the unhappy experience of some UK transactions and the Drexel débâcle.

However, most interesting and welcome is evidence of a shift from the conventional Labour view that the City is nearly uniform in composition (privileged) and intent (evil).

I look forward to the development of a coherent Labour policy aimed at partnership with the City and designed to support the extensive long-term and equity investment sought by Ms Mowlam, but which it is inappropriate to demand of the long-suffering shareholders of the UK banks.

Shauna J. Mackenzie,
*59 Third Cross Road,*
*Twickenham, Middlesex*

## NZ minister reaffirms rightness of decision over DFC

*From Mr David Caygill.*

Sir, Your Wellington correspondent ("NZ minister admits DFC case mishandled," February 16) has taken an incorrect inference from remarks I made last week in relation to the DFC.

I would like to put the record straight.

Last week, I was asked by a member of an audience I was addressing whether with hindsight I thought that the Government should have acted any differently than it did with respect to the DFC.

I said that I had no doubt that we had acted correctly in appointing statutory managers. I had no cause to reconsider that decision.

The one action that I said I did regret was the need to deny as strongly and as immediately as I did any possibility of Government involvement in rescuing the DFC.

Your correspondent has interpreted this to mean that, had we not been under pressure, the Government would have made a different decision.

That was not what I was saying. It was not the decision that I regretted: a Government bail-out of the DFC was out of the question.

My regret related to the fact that we had to make that plain so immediately and so forcefully. That left an impression in some quarters – an inaccurate impression – that the Government was unconcerned about the collapse of DFC.

David Caygill,
Minister of Finance,
*Parliament Buildings,*
*Wellington, New Zealand*

## Government 'is not listening'

*From Mr Ken Gill.*

Sir, Step by step the evidence mounts up against the Government's complacent attitude towards the decline of British manufacturing industry as illustrated by the massive trade deficit.

John Muellbauer's article ("A pattern biased against trade?" February 19) is another example. It fits in with what this union and the Transport and General Workers' Union outlined in our recent joint report, Making our Future.

The problem is that there is no evidence that the Government is listening to the unions, the academics or even the businessmen. The commentators say we are going to get a "neutral" budget. But that is the last thing we need to get manufacturing industry moving again.

Ken Gill,
*General Secretary,*
*MSF,*
*79 Camden Road, NW1*

## German monetary union and the implications for the Community

*From Mr Howard Flight.*

Sir, The inevitable adoption of the D-Mark as the currency of East Germany raises issues as to whether the sharp increase in D-Mark bond yields which this has prompted is justified and as to what points Mark unification throws into focus for wider European monetary union.

On the assumptions that a prudent exchange rate of around 2.5 East German Marks to the D-Mark is chosen – keeping East German wages competitive but slowing down emigration to West Germany – and that measures are taken to prevent the overhang of East German savings spilling over into excessive consumption, the formal extension of the D-Mark as the currency of East Germany ought not, of itself, to have a significant inflationary impact.

The inflationary dangers lie with the additional government spending required and, in particular, the extension of West German welfare benefits to East Germany. Here again if government expenditure is largely on infrastructure investment and a phased programme of improved welfare is adopted – whether "East Germans" are resident in East or West Germany – the impact of German unification on inflation should be modest.

Higher government expenditure and private sector investment in East Germany will, however, put pressure on interest rates, unless the German personal savings rate increases or there is a major turnaround of foreign capital flows into Germany. Part of the pressure, however, should be borne by a reduced German trade surplus.

The recent sharp reaction in the German bond market looks overdone, but does throw focus on the interest rate implications of the increased demand placed on savings by eastern European investment, at a time when savings levels have been falling.

The main argument against speedy European monetary union is that unless it is accompanied by a parallel shift to a co-ordinated European fiscal policy – representing a major merging of sovereignty – it runs the risk of exacerbating regional economic problems and causing relative economic depression in high inflation regions.

The economic differences between East and West Germany are greater than those among the European Community states, but a common German currency is self-evidently a prerequisite of German political unification. The truth is that European monetary union, also, has to be, first, about a major shift towards European political unification. It would also require a considerable degree of subsidy from the lower inflation countries to the higher inflation countries until such time as economic patterns within Europe show greater convergence.

Given the costs to West Germany of German unification, it is difficult to imagine Germany being willing to shoulder similar burdens in a wider EC context. An EC with a common currency would, moreover, inevitably need to be substantially German led, financed and potentially politically dominated.

Howard Flight,
*Guinness Flight Global Asset Management,*
*32 St Mary at Hill, EC3*

FINANCIAL TIMES
Thursday February 22 1990



# Swiss prosecutor asks for $5,400 fine on ex-minister

**By William Dullforce in Geneva**

THE PROSECUTOR in the trial of Mrs Elisabeth Kopp, the former Swiss Justice Minister charged with violating the official secrets act, yesterday asked the court to impose a fine of SFr8,000 ($5,400), but did not call for a jail sentence.

Mrs Kopp was forced to resign in January 1989 after it was disclosed that she warned her husband, Hans, by phone that a company of which he was vice-president was being investigated concerning suspected laundering of money for international drug traffickers.

Switzerland's first woman cabinet minister maintains she believed the information passed to her by her personal assistant, Mrs Katharina Schoop, came from banking circles, not from within her own ministry.

Mr Joseph-Daniel Piller, the parliament-appointed prosecutor, said it would have been illogical for Mrs Kopp to have phoned her husband so hastily on the basis of ordinary rumours.

Mrs Schoop has said in evidence she was sure at the time Mrs Kopp was aware of the source of her information.

The prosecutor described Mrs Kopp's behaviour, once the warning to her husband had been made public, as "obstinate and tending to conceal facts".

He asked for fines of SFr2,000 on Mrs Schoop and SFr3,000 on Mrs Renate Schwob, the ministry official who had told Mrs Schoop about the inquiry.

Mrs Kopp (right) leaves court accompanied by her husband and daughter, Brigitte

# EC could offer east Europe Ecu2bn aid

**By David Buchan in Brussels**

THE European Community should devote up to Ecu2.35bn ($2.9bn) out of its own budget to eastern Europe over the next three years, its Brussels-based executive proposed yesterday.

Mr Peter Schmidhuber, EC Budget Commissioner, in presenting the Twelve with the costings for aid to eastern Europe, said he was keeping increases low enough to avoid breaking the overall planned budget ceilings negotiated by EC leaders in February 1988.

This is likely to satisfy the Council of Ministers but may be too low to please the Strasbourg Parliament which together with the council determines EC budgets.

Mr Schmidhuber's proposals are contained in a mid-way revision of the EC's 1988-92 financial perspective and will be translated shortly into formal budget plans. He said, however, that his plan took no account of the potential impact of East Germany joining, one way or another, the Community.

There were many imponderables in determining whether East Germany would be a drain or an asset. On the revenue side of the equation, it did not have a value added tax system such as is used as a partial key to calculate EC budget contributions. On the spending side, the speed and nature of monetary union with West Germany would affect how much Community aid East Germany would need or deserve.

Therefore, Mr Schmidhuber was doubtful whether the Commission could be very precise in its paper – to go before the special April summit of government heads – on the impact of German unity on the EC.

So far only Ecu300m had been earmarked in the 1990 budget for Poland and Hungary. The Commission is now proposing a further Ecu200m this year for five other east European countries, which last week presented their cases for help to the Group of 24 western aid donors being co-ordinated by Brussels. Aid worth Ecu850m is envisaged for 1991 and Ecu1bn for 1992.

Although the increase is relatively steep, there is some doubt about the speed with which sound east European projects can be identified for EC aid. After several months of evaluation, the Commission awarded its first amount of aid under the so-called Phare programme for Poland and Hungary which is separate from food aid.

Under the scheme, private Polish farmers are to get Ecu50m worth of pesticides and fungicides which, Brussels officials estimate, could save Ecu300m worth of crops.

In a political balancing act, the Commission is also proposing more money for the Community's Mediterranean neighbours, Latin America and Asia, and for internal Community policies particularly dear to the European Parliament's heart such as environment, television promotion, transport, energy and training.

To show that the Community is not forsaking old friends for new, Brussels is proposing that money for Mediterranean, Latin American and Asian countries, which has declined in real terms over the past decade, should rise from Ecu680m this year, to Ecu800m next year and Ecu1bn in 1992.

Mr Abel Matutes, the commissioner responsible for relations with these countries, is trying to interest EC states in encouraging economic development in countries along the Mediterranean shore.

# US denies support for UK lifting of sanctions

**By Michael Cassell in London and Peter Riddell in Washington**

BRITAIN'S isolation over its stand on easing South African sanctions increased yesterday when the US dissociated itself from British statements that President George Bush supported its position.

In Washington, a senior Administration official stressed that the White House did not endorse Britain's intention to lift the voluntary ban on investment in South Africa – on which a UK Cabinet decision is expected today. The difference between the US and Britain, however, is over the immediacy of such a public response rather than the intention behind it.

The statement follows remarks made by Mr Douglas Hurd, UK Foreign Secretary, following the EC foreign ministers meeting in Dublin on Tuesday, when he said that Mr Bush had told Mrs Thatcher he *supported her stand.*

However, a senior Bush Administration official was quoted in Washington as rejecting as "a misinterpretation" any characterisation of Mr Bush's contacts with Mrs Thatcher as "positive," saying that the President had *not* endorsed Britain's moves.

The Bush Administration agrees with the British Government's view that President de Klerk should be backed for the steps he has recently taken and be encouraged to do more. But any US moves will await the visits to Washington later in the spring by President de Klerk and by Mr Nelson Mandela, the recently freed African National Congress leader.

Unlike Mrs Thatcher, President Bush is tied by Congress's refusal to ease sanctions at this stage and he will not want to be associated publicly with Mrs Thatcher's stand, especially since it is out of step with the rest of the EC.

The sanctions issue is of considerable domestic political importance in the US and Mr Bush does not want an unnecessary political fight with black leaders and the Democratic Congressional leadership.

The British Government's intention to act unilaterally in an effort to encourage South Africa towards further internal reforms could be formally announced later today. The expected decision was again attacked by Labour in the Commons and also drew fresh criticism from some Conservative MPs.

Today's British cabinet decision, ignoring calls in Dublin for unity over South Africa sanctions policy, threatens to anger further Britain's EC partners.

Government officials continued to insist yesterday that Britain believed developments in South Africa now required positive encouragement. It was made clear that Mrs Thatcher remained unconcerned about standing alone on the issue.

It was also being emphasised that other EC member countries were steadily building up trade with South Africa while publicly supporting continuing sanctions.

Responding to Labour accusations that the Government faced "miserable humiliation" on sanctions, Mr William Waldegrave, British Foreign Office Minister, said the EC partners had agreed in 1986 that the voluntary ban on investment would be lifted once a dialogue on reform started.

Mr Waldegrave, calling for a "symbolic but practical response" to President de Klerk's initiatives, denied suggestions that there was split between the Foreign Office and Downing Street over the correct approach to sanctions.

Business implications, Page 9

# Ministers plan to open up arms market

**By David White, Defence Correspondent, in Gleneagles, Scotland**

NINE European countries have taken the first steps towards creating a *more open arms market* by enabling manufacturers to bid for contracts from one another's governments, it emerged at a meeting of defence ministers yesterday.

However, Mr Tom King, the British Defence Secretary, warned after a meeting of the Independent European Programme Group (IEPG) that the arrangements, designed to boost trade flows in military equipment, would not work unless countries applied genuinely competitive criteria in awarding contracts.

While welcoming steps taken towards a more open defence market, Mr King said: "Making sure that the rules are fair is another matter."

Senior armaments officials have been asked to draw up a policy document on the principles for operating an open market in weapons, which are currently excluded from the trade rules of the European Community.

These principles will include provisions for so-called *juste retour*, under which countries will be guaranteed export business in return for opening their military markets.

However, Mr King stressed that these provisions, demanded by southern European countries with weaker defence industries, would be only transitional and in the long term would not be compatible with free-market competition.

The majority of these 13 IEPG countries, which are all members of Nato, have begun publishing regular information on bidding opportunities for defence contracts on the lines of "contract bulletins" already produced by the UK and France.

Spain, Portugal and Greece – three countries which have shown concern about the potential damage to their defence industries if they open their markets – are expected to follow shortly, Mr King said.

Luxembourg, because of the tiny scale of its defence equipment needs, is the only member to have opted out of the initiative.

Mr King emphasised that the scheme was not aimed at setting up a "fortress Europe." The ministers, meanwhile, agreed to draw up a framework memorandum this year for a programme of joint defence research projects known as Euclid. However, France's keen pursuit of this programme has not been matched by other leading defence manufacturing countries. Issues of intellectual property rights under the joint programme have yet to be resolved.

In the background of the meeting loomed uncertainty on the future organisation of Nato in the light of plans for German unification.

Mr Gerhard Stoltenberg, the West German Defence Minister, discussed unification prospects and their military implications in private talks yesterday with his European counterparts.

# Penalties proposed for slow debt payment

**By Charles Batchelor in London**

TOUGH rules to encourage European companies and public authorities to settle debts promptly have been proposed in a draft proposal by the European Commission's enterprise directorate.

The directorate proposes that:

- public authorities be obliged to pay sums owing on the purchase of goods and services within 45 days;
- other purchasers of goods or services be obliged to pay within the same period unless the sales contract stated otherwise;
- there be an automatic obligation to pay interest at a predetermined rate from the first day after the payment deadline.

The usual terms of payment vary throughout Europe, with German purchasers settling their debts in 30 days, while Italian companies and public authorities take 120 days. In the UK small companies wait on average 75 days for their bills to be settled.

The directorate has decided to consider intervening because the differences between European countries may have a marked effect on competition and the security of cross-border commercial transactions. "A climate of insecurity represents a real obstacle" to trade, it said.

The proposals have been circulated to chambers of commerce and small companies' organisation just three weeks after the UK Government prevented an attempt by a Conservative MP to gain support for legislation aimed at giving small companies the right to charge interest on overdue payments.

The proposed European directive would apply to all outstanding debts, but the particular beneficiaries of any new rules would be small and medium-sized companies which do not have the power to oblige larger customers to pay on time.

Large numbers of businesses, particularly small and medium sized enterprises, suffered from delayed payments and were sometimes forced into liquidation, the directorate said. Some purchasers systematically exploit this situation, while public authorities are the slowest to settle their debts.

A directive would provide greater legal and financial security for companies; would strengthen the weaker party to contracts; reduce the need for companies to monitor debts; and encourage the adoption of good payment practice, it said.

# UK rates to stay high

**Continued from Page 1**

tive currencies.

But City of London economists said it was clear that sterling had profited most from high British interest rates and weakness in the D-Mark and dollar.

Interest rate fears intensified yesterday at the release of figures showing that UK output grew faster than expected in 1989.

The Treasury and City were surprised by preliminary estimates for the output of the whole economy which showed gross domestic product 3 per cent higher on the year to the fourth quarter of 1989, and 2.4 per cent on the calendar year.

Economists said the figures were too strong for comfort. If output was being driven by consumer demand, this would further push up inflation.

## WORLD WEATHER

[illegible]

# BAe strike 'costs Airbus consortium up to $300m'

**By Paul Abrahams in London**

A STRIKE by engineering workers at British Aerospace has cost the Airbus consortium as much as $300m, according to Mr Henri Martre, chairman of Aerospatiale, the French state-owned aerospace group which has a 37.9 per cent stake in Airbus.

The 16-week strike, which is over a shorter working week and new working practices, is threatening to bring the Airbus production line in Toulouse, France, to a halt. The factory there is assembling less than one A-320 twin-engined aircraft a month, compared with a peak of eight last year before the strike.

Meanwhile, the manufacturing divisions of Aerospatiale involved in the Airbus programme are at full capacity but are stocking output.

Mr Martre is threatening to invoke an article in the Airbus statute which would make BAe responsible for 40 per cent of the losses caused to the group by the strike, equivalent to $120m. BAe maintains the clause excludes losses caused by strikes and that the company is therefore not liable.

Airbus is likely to face claims for damages from airlines and leasing companies for delayed delivery of aircraft.

The partners in Airbus which include Messerschmitt-Bölkow-Blohm of West Germany, which has a 37.9 per cent stake, and Casa of Spain, which has 4.2 per cent, are becoming increasingly irritated at the inability of BAe to resolve the dispute. Two other companies which were targeted by the unions in a general campaign for a shorter working week – Rolls-Royce and Smiths Industries – agreed to the shorter working week after strikes of seven and four weeks respectively.

However, BAe has said it is unwilling to reduce working hours without negotiating quality and productivity agreements to offset the lost hours.

THE LEX COLUMN

# A nasty tremor in Tokyo

By any standards, yesterday's 3 per cent drop in the Tokyo market is unsettling. The wider context is becoming familiar: that of world equity markets adjusting downwards in line with the downtrend in global bonds. But in terms of sudden movements, Tokyo was supposed to be different. Indeed, the fall came in spite of attempts by the authorities to play their traditional stabilising role. Margin requirements have been relaxed for the first time since October 1987, and the Ministry of Finance has been actively supporting the bond market.

Granted, Tokyo had risen by more than 10 per cent in the last two months of 1989. Its 8 per cent correction since then is merely in line with London and New York. But over the past two years Tokyo has risen by about 80 per cent – twice as fast as the other two – and several of the factors which made this possible no longer apply.

The huge benefit of falling oil prices, which saw Japan's oil import bill fall by 80 per cent between 1980 and 1988, has been reversed. Oil prices have risen by 17 per cent over the past year and the price of other essential raw materials, such as iron ore, are up by a similar amount. Inflationary pressures remain remarkably modest but that is mainly because corporate margins are taking the strain. The recent 10 per cent drop in bond prices has also damaged corporations' ability to bolster their profits with financial gains. The prospect of double-digit earnings growth no longer looks so secure.

The final bugbear is the surprising weakness of the yen. Its strength in 1987 and 1988 was critical to the success of the equity market; its current weakness is correspondingly worrying. It did not recover after the Government's comfortable re-election last weekend, and if it does not start to strengthen after the long-expected discount rate rise there really will be cause for alarm. After all, the yen was strongest when Japanese interest rates were 100 basis points above West Germany's. They are now 150 basis points below. Any suggestion that they would have to be raised by this amount would really cause trouble for equities.

## Royal Dutch/Shell

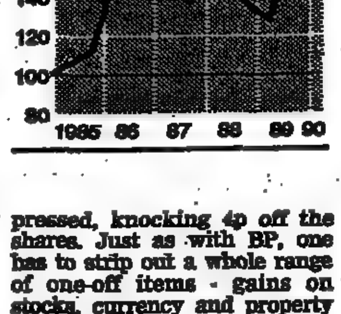
The market gazed at Shell's 8.8 per cent increase in the final dividend and was unimpressed, knocking 4p off the shares. Just as with BP, one has to strip out a whole range of one-off items - gains on stocks, currency and property – before reaching underlying profit growth, which some analysts calculate at under 4 per cent. Thus dividend payments remain the one reliable benchmark when all else is obscure; and this time Shell has been outstripped by BP.

Shell's proportionately greater dependence than BP on downstream activities means that the benefit to the former from higher oil prices is more likely to be muted. The cynics might feel that explains the difference between Shell's caution and BP's optimism on the direction of oil prices. Although the whims of the currency markets could upset all calculations, Shell's net income looks likely to fall this year. In particular, a further downturn from the chemicals division, where fourth quarter profits fell 36 per cent, looks inevitable given the worldwide overcapacity in the petrochemical industry.

Longer term, Shell remains as blue chip as ever. Its balance sheet is strong, its oil reserves are rising and widespread and its gas reserves give it an environmental upside lacked by many of its competitors. And the company's extensive links with Eastern Europe are just what one would expect of a company renowned for its long-range planning.

**Courtaulds**

Share price relative to the FT-A All-Share index




## Courtaulds

The full details of the Courtaulds demerger do nothing to lessen the idea's attractions. The textile business might command a market value of around £250m, reckoning on a p/e of 8.5 and a yield of just over 6 per cent. The rest of the business, on a multiple of perhaps 10.5, would be guaranteed a place in the FT-SE with a market capitalisation of around £1.3bn; though the initial rating will partly depend on how well the company can sell itself to the chemicals analysts, assuming that will be its new sector.

The implied price for the existing share is only marginally above yesterday's 382p. This is unsurprising, since the market has had three months to mull things over and the earnings forecasts in the listing particulars are much as expected. Any further re-rating would depend on longer-term appraisal: for instance, on whether the textiles business can expect a cyclical recovery next year, or whether its relatively heavy gearing leaves room for dividend increases. If a bid were to come, the non-textile business still looks the likelier target, though not very likely at that. The promised tax advantages seem meanwhile to have evaporated: but the whole scheme, like the BAT flotations which will follow it, makes a remarkably clear case for the joys of demerger.

## GPG

If Mr Robert Maxwell thinks shares in the cash-rich rump of Guinness Peat are worth 30 per cent more than the 17p Sir Ron Brierley's IEP bid for them on February 1, the depleted ranks of GPG's ordinary public shareholders should gratefully take his money. No prizes for guessing why Mr Maxwell's interests have been buying in the market at 22p, raising his stake in GPG close to 17 per cent. Nor is it difficult to see why Lord Kissin has been doing the same, at 20p, to go up to 10.6 per cent, against IEP's controlling 61 per cent. But the arbitrageurs and hapless members of the public still holding GPG paper should take yesterday's advice from its board and get out now for as much above 17p as the market will bear.

Lord Kissin and Mr Maxwell have little to lose if they follow their present, rather crude, plan of strong-arming IEP by vetoing anything major it might want to do with GPG's $89m of net cash. Conceivably, they have something to gain if GPG comes anything near the performance of Tozer Kemsley, where Sir Ron gained 65 per cent control in mid-1985 at 40p and the shares now trade at 121.5p. But for the rest of us, this saga is best watched from a safe distance.

FINANCIAL TIMES
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## INSIDE

### French food and Indian restaurants

A new foods giant stands ready to attack the Indian market. BSN, the French foods group, has thrown in its lot with Britannia Industries, India's largest biscuit manufacturer, as a means of entering what is said to be the fastest growing consumer market in the world. For Britannia, controlled by Mr Rajan Pillai, the British-based Indian industrialist, the recently announced tie-up opens the doors to BSN's range of products and the European group's technology and marketing skills. The deal is also seen as a prelude to aggressive expansion in Asia. Page 28

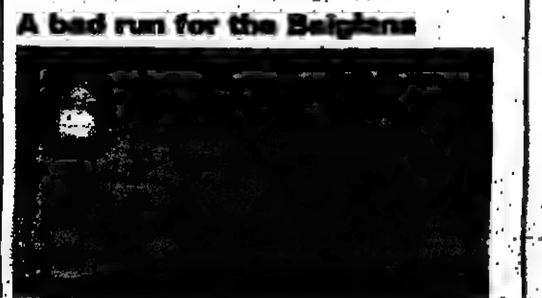
### At a loss for words

City & Westminster Group last year paid £575,000 ($970,000) for 1m shares in Dominion International, the UK-based financial services and property company. A fortnight later, the shares were suspended at 52p. They are now worthless, according to the administrators appointed in January to oversee Dominion's affairs. A letter from the stockbrokers who arranged the deal throws light on CWG's untimely decision to buy Dominion shares. Clay Harris reports. Page 33

### All hands to the pumps in Peru

Miles of impressive irrigation channels snake through the moonscape desert of Peru's north-central coast. Concrete-clad tunnels carve through the Andean foothills in a plan to divert the waters of the Santa river and bring a Chilean-style agribusiness boom to Peru. Although cash shortages may prevent President Alan Garcia from fulfilling his party's 60-year-old dream of bringing water to the desert before he leaves office in July, a complex irrigation system in the near future appears inevitable. Page 34

### A bad run for the Belgians



The Belgian stock market has been the poor relation among those in the rest of Europe over the last year. It underperformed most of its neighbours in 1989 and so far this year has been among the worst markets in the world, dropping by more than 10 per cent. Lucy Kellaway reports on the malaise. Page 46

### Market Statistics



### Chief price changes yesterday

| FRANKFURT (DM) | | | | PARIS (FFr) | | | |
|---|---|---|---|---|---|---|---|
| Rises | | | | Rises | | | |
| Holzmann (P) | 1143 | + | 11 | L'Oreal | 4445 | + | 195 |
| Lahmeyer | 948 | + | 18 | Radiotech | 640 | + | 19 |
| Sud-Chemie | 715 | + | 15 | Falls | | | |
| Falls | | | | Accor | 809 | − | 18 |
| Beiersdorf | 730 | − | 10 | Bongrain | 2720 | − | 72 |
| Springer Vlg Rg | 810 | − | 20 | Poliet | 470 | − | 12 |
| Volkswagen | 545 | − | 6 | Simco | 585 | − | 20 |
| NEW YORK ($) | | | | TOKYO (Yen) | | | |
| Rises | | | | Rises | | | |
| Avon Products | 31½ | + | ⅜ | Tokai Kogyo | 2190 | + | 190 |
| IBM | 104 | + | 1 | Union Optical | 2160 | + | 130 |
| Schlumberger | 50 | + | ¼ | Falls | | | |
| Falls | | | | Fujiko | 1000 | − | 110 |
| AT&T | 38¼ | − | ⅜ | Hokuetsu Bk. | 1150 | − | 120 |
| DEC | 72⅜ | − | 1⅝ | Nihon Spindle | 1230 | − | 130 |
| Kimb-Clark | 64½ | − | 2⅝ | Nozaki Inustsu | 1500 | − | 170 |

New york prices as at 12.30pm.

| LONDON (Pence) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Rises | | | | Brit Aerospace | 602 | − | 7 |
| BAA | 382 | + | 5 | Brit & Comm. | 54 | − | 10 |
| Courtaulds | 382 | + | 7 | Devenish (J.A.) | 248 | − | 14 |
| Empire Stores | 114 | + | 7 | ICI | 1027 | − | 11 |
| Eng China Clays | 388 | + | 7 | Kwik-Fit | 98 | − | 6 |
| Guinness | 554 | + | 4 | Lucas Inds. | 579 | − | 10 |
| LASMO | 627 | + | 9 | RHM | 400 | − | 5 |
| NatWest | 345 | + | 5 | Saatchi | 202 | − | 15 |
| Paragon Comms. | 158 | + | 30 | Slebe | 423 | − | 5 |
| Smiths Inds. | 227 | + | 3 | Stand. Chart. | 588 | − | 16 |
| Wellcome | 680 | + | 5 | Unilever | 630 | − | 6 |
| Falls | | | | Vickers | 195 | − | 2 |
| BICC | 401 | − | 8 | | | | |
| BOC | 515 | − | 6 | | | | |

# Continental buys National Tyre

By Andrew Fisher in Frankfurt

CONTINENTAL, the West German tyre company, has agreed to pay Michelin, the French tyre group, DM400m ($243m) for National Tyre Service of the UK in an attempt to lift its low penetration of the British market.

With turnover of about £140m, a workforce of 2,300 people and 408 outlets, National Tyre Service (NTS) is the second-largest tyre distributor in the UK after Associated Tyre Services (ATS), which is also owned by Michelin of France.

Michelin bought NTS from BTR, the UK conglomerate, for £140m last June. Continental is now paying the same price to Michelin for an operation that Mr Philip Ayton, motor industry analyst with stockbroker Barclays de Zoete Wedd in London, said "is worth more to Conti just for the exposure."

Continental, Europe's second-largest tyre producer after Michelin, said its average share of European markets outside Germany was about 17 per cent. But its share in Britain is minimal, although it has a tyre plant in Scotland.

Continental's acquisition of NTS follows its purchase last autumn of a 13 per cent stake in Kwik-Fit Holdings. This deal, on which it is showing a loss, was also aimed at developing UK sales. But Mr Tom Farmer, the chairman of Kwik-Fit, has made it clear the company is not for sale and that he is disinclined to stock Continental products. However, yesterday Continental said the NTS purchase would not affect its holding in Kwik-Fit.

Industry analysts said Michelin's ownership of both ATS, with some 550 outlets, and NTS might have caused problems with the UK Monopolies and Mergers Commission (MMC) and could have led to the sale of NTS to Continental. Michelin's purchase of NTS was referred to the MMC in November.

There are more than 4,000 tyre distribution depots in the UK, many of them small. About 1,600 are controlled by tyre companies. In volume terms, the producers – Pirelli of Italy, Goodyear of the US and Sumitomo of Japan, which have UK sales networks – account for almost 80 per cent of the market.

Mr Ayton said he was surprised that Continental did not buy NTS when it was for sale last year. This time, he added, it was the only company in the running. "It was a more desperate buyer than anyone else." He noted that the deal came as the outlook for the tyre market worsened due to the impact of higher interest rates on consumer spending.

Earlier this month Michelin said that it was planning an across-the-board review of its investment plans in the face of expected weak demand.

# Avon to sell Japanese arm for $450m

By Karen Zagor in New York

AVON PRODUCTS, the world's largest manufacturer of cosmetics and toiletries, yesterday said it would sell its remaining stock in Avon-Japan for $338m in cash and $112m in royalties to Tokyo-based Friends of Freesia and Mr Yeji Sasaki, Freesia's president.

Avon, which has spurned several takeover approaches in the past year, has been under considerable pressure to generate cash to reduce its debt following the bids and disappointing fourth-quarter results. In 1989, Avon pared down its debt of $1.1bn by about $500m.

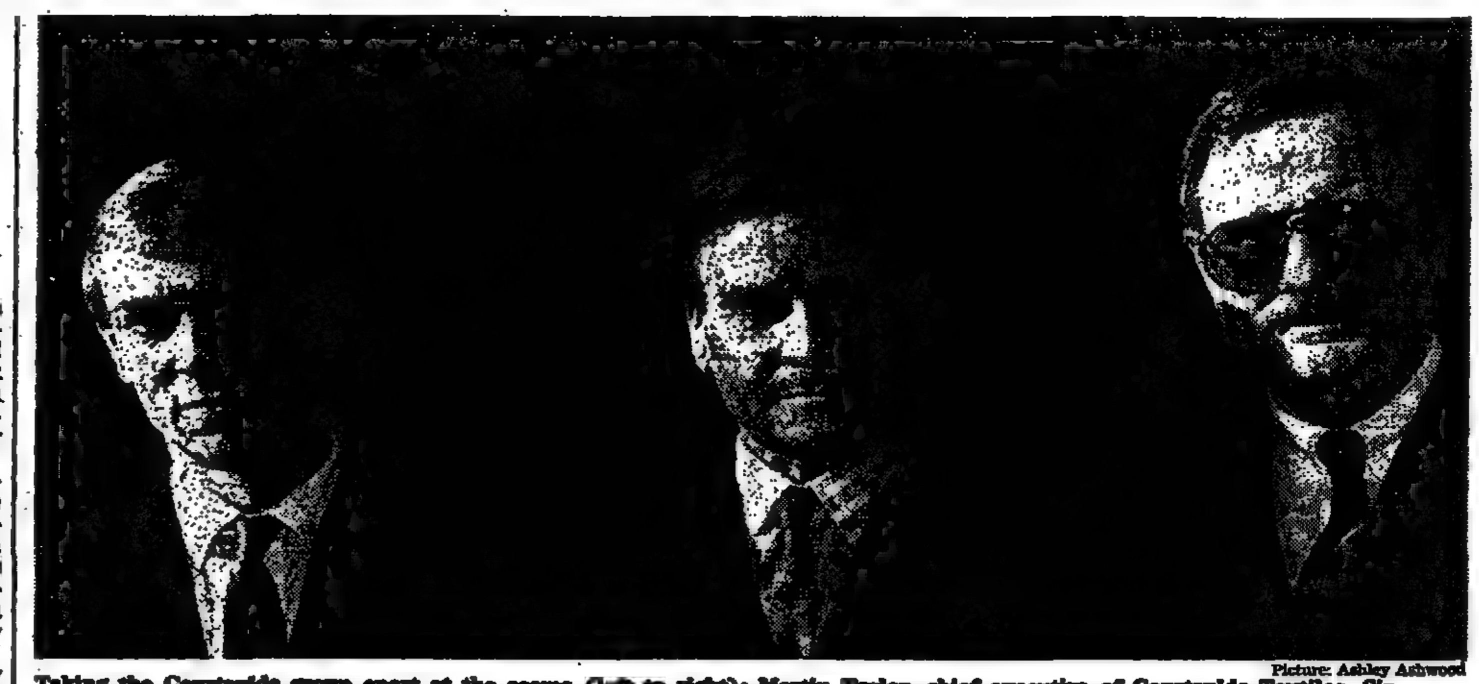
The New York-based company last month sold its Parfums Stern unit for $210m to Elf Aquitaine, the French oil group, although it failed to attract a high enough offer for its Giorgio Beverly Hills fragrance subsidiary.

Freesia is a privately-held company with sales of about $180m. Its largest business is a direct-mail company that markets household electrical appliances, jewellery and fashion items. Mr Sasaki said Freesia would retain Avon-Japan's management and operate the company as a free-standing subsidiary.

The sale of the remaining stake in Avon-Japan is subject to approval by the Avon Products board, which next meets on March 1. Avon Products sold 27.1m shares in Avon-Japan for $220m in 1987.

In 1988 Avon-Japan recorded net profits of $15.3m on sales of $336m, while Avon products had net earnings of $54.6m on sales of $13.3bn.

Avon shares were up $⅜ at midday yesterday to $31½ in New York. Some analysts believe Avon could fetch more than $40 a share in a buy-out.



Picture: Ashley Ashwood

Taking the Courtaulds group apart at the seams (left to right): Martin Taylor, chief executive of Courtaulds Textiles, Sir Christopher Hogg, Courtaulds chairman, and Sipko Huismans, Courtaulds managing director

# Courtaulds outlines demerger plans

By Andrew Bolger in London

COURTAULDS, the international textile and chemicals group, yesterday revealed details of the proposed demerger of its textile business.

Shareholders will receive one share in the demerged Courtaulds Textiles for every four held in the group. The Courtaulds Textiles shares should be listed from March 19 and trading should continue in Courtaulds shares without interruption.

Following the demerger – which was announced in October – shares in Courtaulds and in Courtaulds Textiles will be separately quoted on the Stock Exchange and the respective businesses will run independently as public companies.

Sir Christopher Hogg, chairman and chief executive of Courtaulds, said the demerger would allow each management to concentrate on its own businesses.

Courtaulds Textiles will be one of the biggest textile groups in Europe, with interests in spinning, weaving and garments. The "new Courtaulds," as Sir Christopher calls it, will encompass the group's interests in fibres, films, coatings, packaging and speciality materials.

The board forecasts that Courtaulds, excluding the results of Courtaulds Textiles, will make a pre-tax profit of not less than £160m ($270m) in the year to March 31 – the same amount as the whole group made last year. It said earnings per share would be not less than 31p (28p).

On a pro forma basis, Courtaulds Textiles would have made pre-tax profits of £40m on sales of £968m in the year to December 31, with earnings per share of 29p.

The board said a demerger dividend of 11.6p per Courtaulds Textile share was expected to be paid on June 18. The directors also intend to recommend a final dividend for Courtaulds for the year to March 31 of 8p per Courtaulds ordinary share.

Combined with the interim dividend of 3.1p that Courtaulds has already paid, these dividends will mean that, for the year to March 31, shareholders will receive the same total dividend of 14p as the existing Courtaulds would have expected to pay had the demerger not taken place.

The demerger proposals will be put to an extraordinary general meeting of Courtaulds shareholders on March 16. If approved, it will take effect retrospectively from January 1 of this year.

The profits forecasts assume significant changes to the capital structure of Courtaulds Textiles made on the basis of the demerger. Courtaulds will make a capital contribution of £159.8m to Courtaulds Textiles to reduce its net borrowing to £130m.

Courtaulds has agreed that Courtaulds Textiles should have exclusive use of the Courtaulds name in the textiles field. On a change of control of either company, the other may purchase all rights to the Courtaulds name for £1m, adjusted for inflation.

Sir Christopher said the effect on taxation of the demerger would be broadly neutral. No liability to UK capital gain tax should arise for shareholders because of the demerger.

Sir Christopher will also be non-executive chairman of Courtaulds Textiles, the only director to sit on both boards.

Courtaulds shares closed 7p higher at 382p.

Lex, Page 22

# Shell lifts profits by 34% to near £4bn

By David Thomas and Steven Butler in London

ROYAL DUTCH/SHELL, the Anglo-Dutch oil group, yesterday reported a sharp jump in profits, confirming the trend of firm oil prices boosting the oil majors' results.

Shell's after-tax net income last year rose 34.4 per cent to £3.95bn ($6.68bn), reflecting both the higher fuel price and increased output.

However, the advance on a current cost basis, which strips out stock value changes, was a more modest 13 per cent to £3.58bn.

British Petroleum, the other London-based oil multinational, announced similarly buoyant results last week, when it unveiled a 13.4 per cent increase in after-tax fourth-quarter profits.

Shell struck a notably more cautious note than BP yesterday when predicting future oil price movements.

Sir Peter Holmes, chairman of Shell Transport and Trading, said: "I think we're on a roller-coaster and the only question is what are the limits of the roller-coaster. As long as Opec keeps its act together, I think it will keep within the current figures, say $16 to $20 [a barrel]."

Sir Peter Walters, BP's chairman, said last week that the company was assuming oil prices would reach $25 a barrel by 1995.

Shell also said it would take advantage of the more receptive climate for investment in the Eastern Bloc. It has bought half of the 40 per cent stake in the Tyumen oil production joint venture in Siberia from Fracmaster, the Canadian company.

Sir Peter said Shell hoped to build on the extensive trading relationships it had with most of eastern Europe. Shell was doubling its retail network of 40 stations in Hungary.

Shell's crude oil production increased by 4.8 per cent in 1989 to 1.851m barrels a day (b/d). The company predicted further increases in output, from recent acquisitions in Nigeria and Colombia; new production in the Gulf of Mexico, Denmark, Norway, Syria and Egypt; and continued growth from operations in Gabon and Malaysia.

Last week, BP reported an 8.9 per cent decrease in its 1989 crude output to 1.412m b/d. Nevertheless, BP announced a 10 per cent increase in its 1989 dividend to 14.9p compared with Shell's 8.2 per cent rise to 18.4p.

Lex, Page 22; Details, Page 31

# Pan-US satellite venture planned

By Alan Friedman in New York

FOUR OF the biggest media and communications companies in the US, including NBC Television and Australian publisher Mr Rupert Murdoch's News Corporation, yesterday announced plans to invest $1bn in the 1993 launch of Sky Cable. The multi-channel joint venture is being promoted as the first high-power Direct Broadcast Satellite (DBS) service to span the US.

The pay-TV venture, which will make use of the Hughes HS 601 high-power satellite, the world's most powerful commercial space-based transmitter, aims to make up to 108 new channels available to urban and rural US television viewers.

The system would provide US viewers with low-cost access to sharply improved reception, making use of both high-definition television (HDTV) and standard video signals.

It was claimed yesterday that Sky Cable would also deliver stereo signals with the quality of compact disc (CD) sound and that new technology would allow the retail distribution of a flat receiver the size of a table napkin for less than $300.

The four partners in the venture – News Corporation, NBC, the Hughes Communication subsidiary of General Motors and Cablevision, one of the largest multiple-system cable television operators in the US – will each contribute $75m in cash for the initial equity base of $300m. The cash is to be paid in equal instalments over the next four years. A further $325m of funding will come from non-recourse debt and the final $375m in the shape of working capital financing.

The venture represents the latest recognition by US network television executives that they must join forces increasingly with the cable industry to keep up with the US broadcasting market.

Mr Robert Wright, chief executive of NBC, which will have an active role in the programming side of the venture, said yesterday that multiple or "niche" cable programming "is part of the present and the future; it is a reality." NBC is already involved in cultural and sports channel ventures.

Mr Rupert Murdoch, who stressed the importance of sports programming, said the initial target would be 3m American subscriber households. He said it might be possible to make use of programming from his separate and unrelated Sky Television satellite venture in the UK.

The division of labour among the four equity partners, each of which will have 25 per cent of Sky Cable, will see Hughes launching and operating the satellite and the other partners handling the programming, operations and marketing. Hughes has been awarded the DBS licence for 27 channels, while Cablevision already serves more than 1.5m subscribers.

# Delay urged on Blue Arrow claims

By Eric Short and David Waller in London

MR DONALD Brydon, chairman of the Investment Committee of the National Association of Pension Funds, yesterday urged investors who had lost money in the 1987 Blue Arrow rights issue not to accept immediately the compensation terms offered last week by County NatWest.

Speaking on the opening day of the association's annual investment conference at Eastbourne, Mr Brydon told delegates that the co-ordinating committee of the Institutional Shareholders' Committee was seeking a meeting with County over the £30m compensation package announced last week.

County and UBS Phillips & Drew, the Swiss-owned investment bank, were advisers to the £873m issue. Only 30 per cent of the shares were taken up and the two firms are alleged to have misled the stock market when placing a further 36 per cent of the issue with institutional investors. Since then, there have been negotiations between fund managers and the advisers. The institutions – through their recently re-formed pressure group – have shown increasing militancy over the affair.

Mr Brydon said that the co-ordinating committee was particularly concerned to find out how County had arrived at the offer (worth 30p per share plus 10p interest payment) and the time periods for which the compensation applied – namely to shares bought between September 29 1987 (the date of the rights issue) and October 26 1987.

Mr Brydon told delegates he thought that investors might wish to await the outcome of such discussions before concluding their arrangements with County NatWest. He also said that UBS Phillips & Drew had now confirmed its willingness to enter serious discussion over compensation terms.

Mr Brydon expressed his hope that the discussions with UBS Phillips & Drew would reach an agreement.

Nevertheless, Mr Brydon said he was disappointed that, so far, County NatWest and UBS Phillips & Drew had failed to agree on a joint settlement. He told delegates that both parties had failed to agree on the split of compensation payments. County NatWest had rejected UBS Phillips & Drew's latest offer of meeting 40 per cent of compensation compared with its previous offer of 25 per cent. County NatWest was insisting on a 50-50 split, he said.

# Esselte rejects SKr9.9bn LBO

By John Burton in Stockholm

ESSELTE, the Swedish office supplies and media group, will sell its media operations and property holdings after its board yesterday rejected a SKr9.9bn ($1.6bn) leveraged buy-out bid in favour of a reorganisation plan offered by the company's management.

The board's decision ends a brief battle over Esselte's future that pitted its principal shareholders, the Mobilia and Ratos investment companies, against the company's executives and workforce.

Mobilia and Ratos agreed to drop their two-week-old LBO bid, Sweden's largest to date, and will co-operate with the management plan, which the board said would benefit shareholders just as much as the LBO bid. The board based its decision on an independent analysis of the rival proposals by Svenska Handelsbanken.

Esselte estimates that the restructuring strategy will increase earnings per share to above SKr25 in 1991 from SKr11 in 1989, indicating that profits after financial items will double to SKr1.5bn in 1991 from SKr735m in 1989. "By leaving the media sector and selling our property, we will concentrate on our core business area of office products, where we see a rapid expansion," said Mr Hans Larsson, Esselte president, who produced the plan as a counter-proposal to the LBO offer.

Management and union opposition was aroused by the LBO's backers declared intention to dismantle and sell parts of the company to repay loans of an estimated SKr6bn to SKr7bn that would have been needed to finance the deal.

Unions worried about job losses, while management declared that extensive divestment would have crippled corporate performance.

Esselte's media holdings include the loss-making pay TV channel Filmnet, which has consumed SKr400m in investments, and the distinguished Swedish publishing house Nordstedt as well as graphic and printing facilities, the company's original business.

Mr Larsson said Esselte is already negotiating with potential buyers and the divestment should be completed by 1991.

The media group produced profits of SKr130m on sales of SKr2.5bn in 1988. The 1989 results for media operations have not been released, but Esselte group profits last year fell by 20 per cent from the 1988 figure of SKr922m in spite of a 15 per cent rise in turnover to SKr16.6bn. It partially blamed the worsening results on continued losses for Filmnet and lower earnings in the graphic printing sector.

# Atlas Copco lifts earnings 32% with increased sales

By Robert Taylor in Stockholm

ATLAS COPCO, the Swedish mining, construction and industrial equipment manufacturer, yesterday reported a 32 per cent boost in 1989 net profits to SKr1.17bn ($191.2m), on sales up 17 per cent to SKr15.03bn from SKr12.81bn.

Fully-diluted earnings per share were SKr26.75 compared with SKr19.60 in 1988. The board is to propose a dividend of SKr8.00 a share for 1989.

Copco forecast that sales would continue to rise in its three main business areas during 1990, while its profit margins would remain at 1989 levels.

The company did particularly well in compressors, where profits climbed 58 per cent to SKr1.16bn from SKr739m and sales grew by 19 per cent to SKr6.92bn from SKr5.79bn. It cited an increased sales volume, a reduction in manufacturing costs and reduced administrative expenses.

Earnings from construction and mining equipment rose 19 per cent to SKr441m from SKr370m.

There were no signs of any flagging during the fourth quarter of the year. Orders continued to increase and the backlog had reached SKr2.88bn by the end of 1989, a 34 per cent increase on the position a year earlier.

The company said it had continued to strengthen its market share in the larger markets of the European Community and it also added that it had made an 18 per cent increase in sales to North America, mainly due to the performance of Chicago Pneumatic.

The standstill in building and construction last year for the company's products in North and South America and the Middle East was balanced by the rapid growth recorded in the same sector in the European Community and Japan.

# Trygg lifts operating result

TRYGG-HANSA, Sweden's second-largest insurance company, yesterday reported an 18 per cent improvement in operating results for last year to SKr740m from SKr625m, writes Robert Taylor.

But the company, which was floated on the Stockholm bourse last December, said in its preliminary report that the yield on its capital was hit badly by high interest rates. These cut the value of Trygg-Hansa's bond portfolio to SKr2.3bn ($376m) from SKr3.19bn a year earlier. The company's premium intakes rose to SKr5.65bn from SKr5.10bn.

# Bergen Bank and DnC in NKr3.2bn loan losses

By Karen Fossli in Oslo

BERGEN BANK and Den norske Creditbank (DnC), two of Norway's top three banks, which are currently in the process of merging to form Den norske Bank (DnB), yesterday reported combined losses on loans and guarantees in 1989 of NKr3.22bn ($500m) in spite of improved operating performances by both banks.

In the previous year the two banks experienced losses on loans and guarantees totalling NKr2.99bn.

Bergen Bank said preliminary figures showed an increase in last year's operating profit, before losses on loans and guarantees, to NKr1.86bn from NKr1.37bn in 1988.

Losses on loans and guarantees rose, however, to NKr1.36bn in 1989 from NKr1.18bn in 1988, though the bank experienced a near three-fold improvement in operating profits to NKr500m from NKr188m in 1988.

Bergen Bank estimated that taxes for 1989 would be NKr150m and proposed a dividend payment of NKr10 a share, unchanged from 1988. A dividend of NKr5 a share is also proposed for new shares issued to shareholders in DnC, in connection with the merger to form DnB.

Den norske Creditbank reduced net losses in 1989 to NKr233m from NKr875m in 1988 and NKr1.44bn in 1987.

Losses on loans and guarantees increased, however, to NKr1.86bn in 1989 from NKr1.81bn in 1988, in spite of a reduction in the volume of non-performing domestic loans and loan loss provisions.

Group operating profit, before losses and taxes, nearly doubled to NKr1.71bn in 1989 from NKr972m.

The improvement, specifically in domestic operations, was largely attributed to a consolidation process of the bank which began in 1988.

In addition, operating expenses in the domestic branch network were significantly reduced in the second half of 1989 but resulted in a 13 per cent cost reduction for the year as a whole.

● Christiania Bank, the other big Norwegian bank, yesterday reported a near doubling of pre-tax profits for 1989 in spite of a NKr227m rise in losses on loans and guarantees to NKr1.82bn.

Pre-tax profits hit NKr700m against NKr394m the previous year and operating profit increased to NKr2bn from NKr1.5bn. The bank proposed a dividend payment of NKr8 a share. The bank forecast that for 1990 loan losses would be lower than in 1989.

Christiania benefited from strong capital gains of NKr915m from its securities' portfolio, which was split between NKr637m in realised gains and NKr278m in unrealised gains.

# Ciba-Geigy plans to open stock ledger to foreigners

By John Wicks in Zurich

CIBA-GEIGY, the Swiss chemicals concern, proposes to open its stock ledger to foreign shareholders. Hitherto, only Swiss nationals have been entered as holders of the Basle parent company's registered shares.

At the annual general meeting on May 9, shareholders will also be asked to approve an increase in dividend from SFr50 to SFr65 per share and participation certificate. It was announced yesterday that group operating profit rose in 1989 by 18 per cent to SFr1.55bn ($1.04bn) from SFr1.32bn following a 17 per cent increase in consolidated sales to SFr20.6bn.

Ciba-Geigy is the first of the Basle chemical giants to make its registered shares available to foreigners. Similar moves were made by Nestlé in late 1988 and Jacobs-Suchard and Zurich Insurance last year.

The rule that no shareholder is permitted to own more than 2 per cent of registered share capital, currently of a nominal SFr351.2m, will remain in force.

At the shareholders meeting, the board will also ask for approval of a move whereby holders of participation certificates will be able to exchange these non-voting equities for registered shares.

A further proposal is that group executives should be "encouraged to participate more substantially in share capital." Depending on "individual performance and the group's financial results," these would be given options to acquire registered shares. At the same time, the parent company's existing employee share-ownership programme would be expanded.

A rights issue "at attractive terms" would be carried out to compensate existing shareholders for their waiving of pre-emptive rights on the shares necessary for the exchange of participation certificates and for the management and employee share-ownership plans.

Until the May 9 meeting, registered shares will be entered into the stock ledger only on the basis of the existing articles of association.

# Rhône-Poulenc gains only 4% after special payouts

By George Graham in Paris

RHONE-POULENC, the French state-owned chemicals group, increased net profits by only 4 per cent to FFr3bn ($711m) last year. The group warned that earnings would fall this year before recovering in 1991 and 1992.

Earnings after tax, but before the remuneration of priority securities, rose by 18 per cent to FFr4.1bn.

However, these priority dividends doubled last year to FFr1.1bn, reflecting payments on a $300m issue of participating securities in November but also the full-year incidence of payments on its 1988 issue of perpetual capital notes.

Rhône-Poulenc's sales rose by 12 per cent last year to FFr73bn, and operating profits advanced by 20 per cent to FFr7.4bn, in spite of the fall in the value of the dollar, the yen and the pound, which weighed on results at the end of the year.

Stockbrokers were disappointed yesterday by the results, and worried about the outlook for the coming year.

"These results are lower than the FFr3.4bn to FFr3.5bn analysts had been hoping for. It is clear there has been a slowdown, at least on the chemicals side, in the fourth quarter," commented Mr David Jones, analyst at brokers Bacot-Allain in Paris.

"There are not many chemicals companies that offer this kind of configuration. All the big German companies are completely mature businesses, but Rhône-Poulenc has an extraordinary risk level, though it is true there is also enormous growth potential. Investing in the company in the medium term is very much a gamble," says Ms Catherine Leveau of brokers Cholet-Dupont.

Last year, the group spent FFr12.4bn on acquisitions, including RTZ Chemicals for £512m ($870m), GAF-SSC for $480m, and Connaught BioSciences, acquired by its subsidiary Institut Mérieux for C$942m (US$785m).

It is now in discussions to acquire Rorer, the US pharmaceuticals company, in a complex deal valuing the company at $3.2bn. It is this acquisition which is expected to depress results this year.

Rhône-Poulenc has issued a series of innovative subordinated debt securities to help finance this lengthening list of acquisitions, prompting Moody's, the US credit analyst, to consider downgrading its rating.

The French Government's decision to transfer to Rhône-Poulenc its stake in Roussel-Uclaf, the pharmaceuticals company controlled by Hoechst of West Germany, is expected to improve the company's equity base, especially if it succeeds in passing on some of the stake to institutional investors. The lack of details about the deal has merely added to financial analysts' confusion over the valuation of the company.

# CEP forecasts 30% jump in income to FFr320m

By George Graham in Paris

CEP Communication, the French publishing group, has forecast profits of at least FFr320m ($56.2m) for 1989, up 30 per cent from the previous year, with sales up 14 per cent to FFr4.8bn.

The results include CEP's 50 per cent stake in Groupe de la Cité, the book and encyclopaedia publishing company in which it is partnered by Générale Occidentale, the former holding company of Sir James Goldsmith now controlled by Compagnie Générale d'Electricité (CGE), the French telecommunications and engineering conglomerate.

Groupe de la Cité lifted sales by 15 per cent last year to FFr5.7bn. It said it expected profits to have risen by at least 10 per cent from 1988's FFr277m. Cité's earnings have in the past depended heavily on its 50 per cent stake in France Loisirs, the highly-profitable book club.

Mr Christian Brégou, chairman of the two groups, said yesterday that in 1990 both would probably grow faster than the market, with sales rising by slightly more than 10 per cent for CEP and by slightly less for Groupe de la Cité. CEP's results would probably rise by some 15 per cent, and Groupe de la Cité's by somewhat less, he said.

Mr Brégou said CEP's professional and technical magazines had benefited from strong economic growth, favouring the capital equipment manufacturers which are their major clients and advertisers. CEP's magazines had also reinforced their leadership positions, he said, enabling them to command premium advertising rates and gather a large share of classified advertising in their market segments.

The group has begun to expand overseas, Mr Brégou said, with two recent UK acquisitions, The Builder in the magazine sector and Chambers, the dictionary company, in its book division.

## NEWS IN BRIEF

HOLZSTOFF Holding, the Swiss paper concern, has bought the non-wovens division of the US group James River. While no price was disclosed by the Basle-based group, the acquisition was valued at $175m by the US company, writes John Wicks.

The operations, which account for annual sales of $140m, comprise four factories in the US and one in Sweden. The purchase is an important expansion of Holzstoff's activities in the non-woven sector. Last year, these accounted for only 12 per cent of group sales of about SFr900m ($607m).

The Swiss concern already owned the specialist companies Sodoca in France and American Agrifabrics, of Atlanta, in this sector.

● Viag, the West German energy, aluminium and chemicals concern, said its 1989 group net income climbed 14 per cent to DM250m ($150m) from DM219m in 1988 amid higher profits in all of its three divisions. Group sales rose 11 per cent to DM20.48bn from DM18.5bn.

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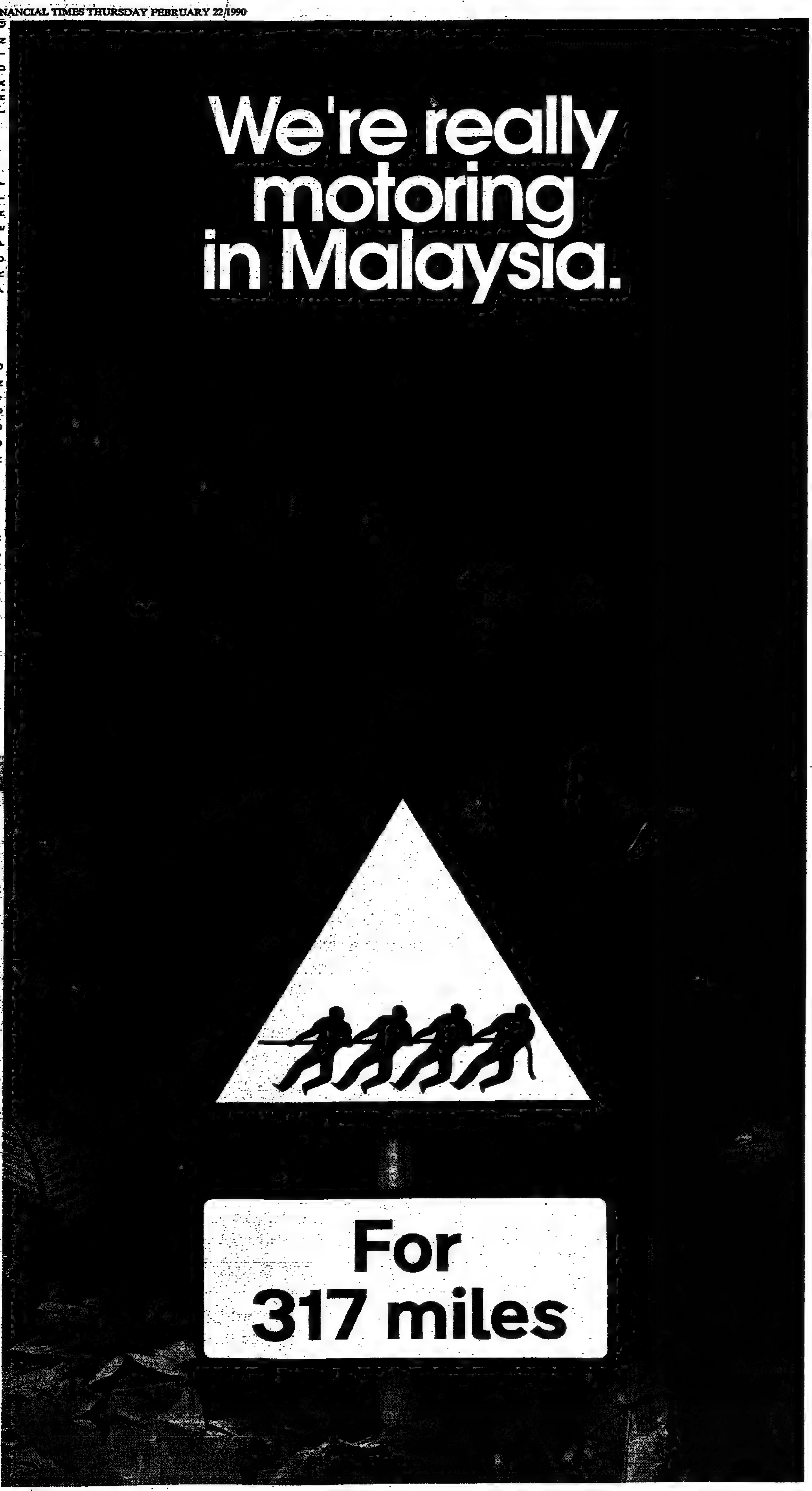


In Malaysia, as construction management advisors on the North-South Toll Expressway, Taylor Woodrow International have got the green light to help steer this major project through varied terrain, from thick low-lying swampy jungle to steep rocky hills.

Valued at around £1 billion and with two hundred bridges, forty-seven interchanges, and thirty-five toll plazas, this new road will cut travel time between Penang and Singapore from twelve hours to six.

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Meanwhile in Kuala Lumpur we have completed the new British High Commission, recently opened by Her Majesty the Queen. A new General Hospital at Penang is underway and the spectacular galleried 173,500 square foot Weld Supermarket is already completed.

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# Drexel paid out bonuses before bankruptcy filing

By Janet Bush in New York

FRESH CONTROVERSY hit Drexel Burnham Lambert, the Wall Street investment bank, with news that it paid out substantial bonuses to employees shortly before it filed for bankruptcy protection and wound down its business last week.

Some of Drexel's creditors said they planned to seek information about the payments, estimated at between $300m and $350m, to determine whether any of that money is recoverable during the bankruptcy proceedings.

Drexel filed for protection from its creditors under Chapter 11 of US bankruptcy law last Tuesday with debts of $2.89bn and assets of $3.70bn.

Houston-based First City Bancorp, one of Drexel's creditors, has filed a motion in the Federal Bankruptcy Court in Manhattan, asking for an account of all payments made before the bankruptcy filing which could be recoverable.

Drexel's creditors want to determine whether the bonuses were excessive and whether they were paid out with any knowledge of the impending financial crisis which led to the bankruptcy filing.

Under US law, a judge can order the return of assets if there has been a transfer of property before a bankruptcy which diverts money available to pay off creditors.

A Drexel spokesman said that the pay-outs were determined by a formula promised employees in January last year and that they were competitive with bonus levels in the industry.

Drexel said that, as of the start of business on Tuesday, it had successfully sold 82 per cent of its securities holdings. In addition, more than 95 per cent of its remaining retail and commodity accounts valued at more than $4.4bn had been moved to other brokerage houses.

Meanwhile, MidEast Report, a bi-weekly New York publication, detailed the five companies which it believes hold a stake of about 17 per cent in Drexel.

The holding company for these investors is called SAIF Ltd, an acronym for Société Arabe d'Investissement et de Financement.

The five companies are Kuwait Real Estate Investment Consortium, Public Institution for Social Security, Coast Investment and Development Co, Kuwait International Investment Co and the Industrial Bank of Kuwait.

MidEast Report said that Lambert Brussels Capital Corp, chaired by Mr James Balog, formerly vice chairman of Drexel Burnham Lambert, managed the American-based investments of Lambert Brussels Associates, a partnership formed by Pargesa Holding SA, of Switzerland, Groupe Bruxelles Lambert, of Belgium, and SAIF.

Drexel Burnham Lambert was unavailable for comment on details of the Kuwaiti investment in the company.

# Benetton group buys into drinks company

By Haig Simonian in Milan

EDIZIONE Holding, the holding company grouping the interests of Italy's Benetton family, has bought a 15 per cent stake in Gonzalez Byass, the Spanish drinks group best known for its Tio Pepe sherry.

A price for the transaction, which does not involve the publicly-quoted Benetton group, has not been disclosed.

The annual turnover of Gonzalez Byass is estimated at around L250bn ($2bn). The company accounts for some 11 per cent of the world sherry market, with sales of 18m bottles in 1988, 7.7m of which were of Tio Pepe.

Italian entrepreneurs have become increasingly active in the Iberian drinks business in recent years. In particular, Mr Carlo De Benedetti has bought into Spanish vineyards though his Cofir holding company.

However, an official speaking for the Benetton family said the latest transaction did not reflect a new direction for its private interests, but stemmed largely from the personal friendship between Mr Luciano Benetton and the Gonzalez family. "It is an agreement between two families," he said.

That relationship has been founded on an interest in Formula One motor racing, in which both Benetton and Gonzalez Byass are involved.

According to Mr Carlos Gonzalez, the chairman of Gonzalez Byass: "We are enthusiastic about this agreement with the Benetton family which will add to our company the youth and dynamism with which they have built an international reputation."

Mr Luciano Benetton and Mr Gilberto Benetton will join the Gonzalez Byass board, becoming the first outside directors on the otherwise family-controlled group.

# An eye-popping price for gold

## Kenneth Gooding on Minorco's purchase of Freeport McMoRan

ANALYSTS were rubbing their eyes in astonishment yesterday at the extraordinarily high price to be paid by Minorco, the South African-controlled investment group, for Freeport McMoRan Gold of the US.

The $17 a share, or $705m agreed cash offer, announced late on Tuesday represents a 20 per cent premium on the previous market price of the Freeport Gold shares and 55 times that company's net earnings of $13m for 1989.

Minorco is also paying the equivalent of $320 a troy ounce for Freeport's recoverable gold. "It would need a gold price of about $600 for Minorco to make any profit on that," Mr Mike Kurtanjek, analyst at James Capel, said. Yesterday gold was about $420 an ounce.

Mr Philip Taylor, analyst with Warburg Securities, said of the cost per ounce of gold: "It is an absurd price." He added: "There is a heck of a lot of 'blue sky' in the price. Freeport needs to find about four times as much gold as it has already proven up to justify the price."

Analysts pointed out that, following Minorco's failure to win its hostile $3.5bn bid for Consolidated Gold Fields of the UK last year and the sale of its 29.8 per cent Gold Fields stake to the Hanson conglomerate, Minorco seemed to have a great deal of cash – $2.5bn – and nothing to spend it on.

Minorco certainly appeared to have come to a dead stop in its attempts to become an operator of a world-class natural resources group.

"There seems to be an element of desperation in the price being paid for Freeport," suggested Mr Taylor. "I feel Minorco was struggling to find something suitable to buy and it is not often gold companies of this size come up for sale."

Freeport Gold is 81 per cent owned by Freeport McMoRan, the New Orleans-based natural resources group, which last November put its gold subsidiary and other assets, together worth $1.5bn, up for sale to concentrate on its copper-gold operations in Indonesia and sulphur production in the US.

Freeport Gold expects to produce about 300,000 ounces of gold this year, compared with 244,100 last year. Its has proven and probable reserves of 2.216m recoverable ounces of gold at its two mining operations, Jerritt Canyon (70 per cent owned) and the nearby Big Springs (60 per cent owned). Both Mr Taylor and Mr Kurtanjek said they would reserve full judgment on the deal until the formal offer documents were sent out.

Mr Kurtanjek pointed out that there was no disputing the excellence of Minorco's technical people "who know assets must generate a reasonable rate of return. Presumably Minorco has access to the Freeport books and has more information than we have.

"On the positive side, this deal gives Minorco access to North America without any hassle and gives it control from day one."

On the fact that Minorco's bid for Gold Fields was halted by a New York judge even though it had acceptance or owned well over half the Gold Fields' equity, Mr Kurtanjek said: "Minorco needed a knock-out blow after that."

# US acquisition and dividend debut for Scitex

By Our Financial Staff

SCITEX, the Israeli maker of computer imaging systems, has made a $24m cash acquisition in the US after more than doubling net profits last year, and is to pay its first ever dividend.

It has agreed to buy the Massachusetts-based Iris Graphics, a producer of digital colour printers for the publishing industry which Scitex also largely supplies. An additional amount may be payable subject to Iris's performance.

Mr Arie Rosenfeld, Scitex president, described Iris as a market leader and said: "Digital colour proofing is of strategic importance to Scitex and its customers."

Scitex, shares in which are traded on the US Nasdaq market, emerged from losses in 1988. Last year it made net profits of $35.4m compared with $14.8m, or $2 per share, against $1.26. From this a 30 cent pay-out is planned.

Sales grew 24 per cent to $238m. About 9 per cent of this was absorbed by research and development spending.

# Honeywell returns to the black

By Anatole Kaletsky in New York

HONEYWELL, the US electronics and automation group, has announced a fourth-quarter net profit of $392m, or $9.26 a share, compared to a net loss of $483m or $11.35 in the fourth quarter of 1988.

The latest fourth-quarter figure included a one-time gain from asset disposals of $306m, or $11.35 a share, and income from discontinued operations of $20m or 49 cents.

In 1989 Honeywell made net profits of $604m, or $14.18 a share, including $313m in one-time gains and $54m from discontinued operations. In 1988, the company made a net loss of $453m or $10.22 a share.

Honeywell's annual sales increased by 3.4 per cent to $6.06bn, but excluding sales from divested units the sales growth was 7 per cent. In the latest quarter sales grew by 1.5 per cent to $1.61bn.

Sales and operating profits increased in all the company's main business segments. In home and building automation sales rose by 1.9 per cent to $2.06bn, while profits grew by 4.2 per cent to $225m. Industrial sales increased by 6.5 per cent to $1.49bn, while profits advanced 14.3 per cent to $137m. Space and aviation sales grew by 8.9 per cent to $2.01bn and the segment made a profit of $111m.

All other businesses produced a profit of $21m, compared with a loss of $52m the year before.

# Sweeping reshape at Chevron

By Alan Friedman in New York

CHEVRON, the fourth biggest US oil company, is to undertake a sweeping reorganisation of its US domestic oil and gas exploration and production businesses.

The restructuring, which follows a six-month internal strategic study, will result in 800 to 1,000 redundancies, amounting to more than 10 per cent of the total number of upstream employees of Chevron USA.

The lay-offs will hit senior and middle management as well as manual labourers.

The group said it planned to sell more than $700m worth of oil and gas production properties believed to be insufficiently profitable.

The sales, to occur over the next two years, follow the disposal of $210m worth of upstream assets in 1988 and 1989.

Chevron's US upstream reorganisation will result in a charge against first-quarter 1990 earnings of between $25m and $30m.

Chevron's biggest extraordinary debit – of $1.2bn – was taken in the fourth quarter of 1989 and included $598m of oil and gas writedowns and $325m of charges, described by the company as environmental clean-up costs.

# Philips venture lifts Whirlpool

By Clay Harris, Consumer Industries Editor

WHIRLPOOL, the US domestic appliances manufacturer, said its European joint venture with Philips, the Dutch electrical group, contributed to a 16 per cent increase in net earnings in 1989, the first year of the new arrangement.

Mr David Whitwam, chairman, predicted a weak first half meant the US white goods market would do no better than maintain its 1989 level and could decline by 2 per cent this year. He expected demand in Europe to grow by 1 to 3 per cent.

The company gave few details of the performance of Whirlpool International, the business in which it bought a 53 per cent stake from Philips at the beginning of last year. It said only that it was profitable and had expanded sales revenue at a greater rate than the European market as a whole.

At group level, Whirlpool reported full-year earnings of $187.2m or $2.70 a share, against $161.3m or $2.33 previously, on revenues of $6.29bn against $4.42bn. All revenues of Whirlpool International are included but only 53 per cent of earnings.

Fourth-quarter earnings of $49.4m or 71 cents a share, against $40.9m or 59 cents were struck after a pre-tax charge of $9.2m for the closure of a factory in Kentucky, from which dishwasher production is being moved to Ohio. Revenues rose 50 per cent to $1.57bn.

The 1988 earnings figures exclude losses of $67.2m in the full year and $52.9m in the final quarter from Whirlpool's discontinued kitchen cabinet business.

# Loblaw boosted as price wars end

By Robert Gibbens in Montreal

LOBLAW, Canada's largest food distributor, saw its earnings boosted last year as price wars came to an end.

Net profit jumped by 72 per cent to $70.2m, or 80 cents a share, on revenues of $7.9bn – down 4 per cent. Analysts expect Loblaw, controlled by the George Weston Group, to improve further this year.

Margins improved in the big Ontario markets and losses were ended in the St Louis area in the US. Sales gained sharply in Canada, but declined in the US because of rationalisation.

● Norcen Resources, controlled by the Brascan Group, posted a 20 per cent gain in earnings to C$110.2m ($91.9m), or $1.74 a share, in 1989 on a 16 per cent gain in revenues to $845m.

Oil and gas profits rose sharply with higher prices and higher production.

● National Bank of Canada has become the third Canadian bank to sue entrepreneur Mr Robert Campeau. The bank is seeking C$50m from Mr Campeau.

He personally guaranteed this amount of a $150m loan that National Bank made to one of his private holding companies in 1987. The Bank has already seized Campeau Corp shares pledged by Mr Campeau for this loan, giving it a 35 per cent interest in Campeau Corp.

Bank of Nova Scotia and Bank of Montreal have already filed court claims totalling $83m against Mr Campeau. National Bank is now putting itself on the same footing.

The banks will delay proceedings with the lawsuits until the affairs of Campeau Corp and its two retail chains are sorted out.

# Better margins at Asahi Glass

ASAHI GLASS, the Japanese glassmaker which has a big presence abroad, lifted pre-tax profits 11.5 per cent to Y84.79bn ($566m) last year, slightly outpacing an 11 per cent rise in sales to Y925.9bn, Our Financial Staff writes.

The company benefited from construction industry demand as well as gains from interest and dividend receipts. The total dividend is being lifted to Y9 a share from Y8. It expects revenues to reach the Y1,000bn mark this year.











## INTERNATIONAL COMPANIES AND FINANCE

# BSN finds its gateway to the East

**David Housego** on the French group's tie-up with India's Britannia

A link-up between Britannia Industries, India's largest biscuit manufacturer, and BSN, the French foods group, is laying the ground for what is likely to be a new food giant in India.

For BSN, the acquisition of a 21 per cent stake in Britannia through an offshore transaction provides a foothold in a market that would otherwise have been difficult to penetrate for a foreign company with no previous roots in India.

For Britannia, controlled by Mr Rajan Pillai, the British-based Indian industrialist, the recently announced tie-up opens the doors to BSN's range of products including yoghurt, pasta, grocery foods and minerals, as well as to the European group's technology and marketing skills.

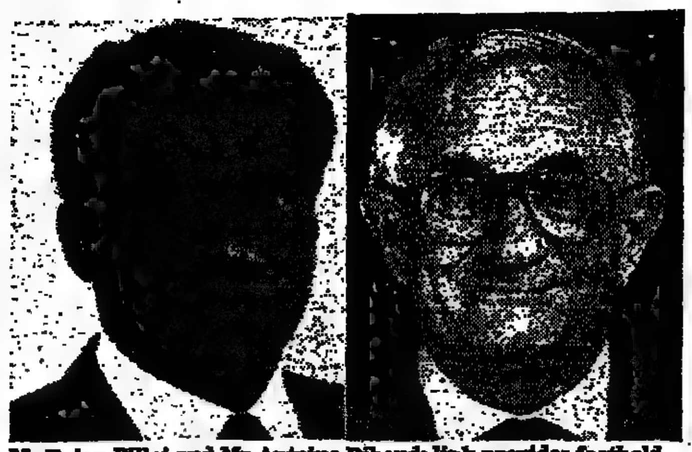
Mr Pillai, chairman of Britannia, describes India as the fastest growing consumer market in the world with consumer spending rising by 22 per cent in the towns and 30 per cent in the rural areas.

"It would have been a tremendous mistake to have gone it alone. We don't know India," says Mr Antoine Riboud, BSN's chairman.

For both BSN and Mr Pillai, the tie-up is also the prelude to an aggressive expansion in Asia. Mr Riboud's sees Asia as BSN's big future field of conquest now that it has consolidated its base in Europe.

It acquired its stake in Britannia through the purchase of a minority interest in Mr Pillai's holding group, Associated Biscuits International (ABI), formerly a Nabisco subsidiary, which also has biscuit interests in Pakistan and Malaysia.

For Mr Pillai, who is now seeking to acquire Nabisco's subsidiaries in New Zealand and Singapore, Malaysia and Hong Kong, the expansion in India is also part of the building of an Asian food empire. Habits in Asia are changing, he says, "from a saving to a consumer mentality."



Mr Rajan Pillai and Mr Antoine Riboud: link provides foothold

BSN reached an agreement with Britannia on taking a stake in December after looking for an Indian partner for more than a year. Only on one previous occasion — with Galbani in Italy — has BSN taken the risk of a minority holding.

With 36 per cent of the Indian biscuit market, and interests also in bread and soya, Britannia has doubled annual turnover in the last three years to Rs2.7bn ($151.3m) with profits rising to Rs130m.

But for the French group, Britannia's attraction was not only its record as a profitable, well-managed concern.

As a company which had 43 per cent of its equity held abroad, the purchase of a stake in it did not require the approval of the Indian authorities. In the present climate of reticence towards fresh foreign investment, especially in consumer industries, BSN would have had difficulty in acquiring an entry ticket through any other route.

The new shareholding structure gives BSN 21 per cent of Britannia, against 22 per cent held by Mr Pillai. Mr Pillai's family holds a further 8 per cent, giving the two groups a majority in a company where the remaining shares are held by the public and the Indian financial institutions.

The food processing industry in India is dominated by multinationals with Nestlé, Hindustan Lever (through Liptons and Brooke Bond) and Cadbury among the major players. But it is still in its infancy, with many products — such as pasta, yoghurts, mineral waters and certain grocery foods in which BSN is a market leader — all but unknown in India.

BSN approached Britannia in August last year shortly after it had acquired Nabisco's European subsidiaries from Kohlberg Kravis Roberts for $2.5bn. Britannia had come out of the same stable in that Nabisco held a 38 per cent stake in the company and management control.

Mr Pillai, who had been president of Nabisco's Asian and Pacific operations, and who earlier had been involved in a joint venture with Nabisco in Singapore, purchased the Nabisco stake in 1988 for $44m under an option he had with the US group.

His investment has risen dramatically since then, with Britannia's market capitalisation almost doubling to $130m. Mr Pillai says that the sale to BSN was at market prices — thus enabling him to repay much of the borrowings he needed to finance his own acquisition in 1988.

The deal between Mr Pillai and BSN thus draws together threads that had been untied by the break-up of the Nabisco empire. "It is very logical," says Mr Pillai. "BSN was the ideal partner to have."

Mr Pillai sees future growth for Britannia being rapid. In the biscuit market, the new Government's policy of reserving the sector for small-scale industries means that Britannia will face no major new competitor.

Elsewhere Britannia and BSN have yet to define which products and trade marks in the dairy product and pasta range they will develop first. Mr Pillai believes there is a potentially large market for mineral water which BSN produces in Europe through its Evian and Badoit brand names. "People's consumption of mineral water is going to grow," Mr Pillai says.

BSN has told Britannia that it will make available brand names and technology without charging a fee. Even before the deal was signed, it had sent a technical and marketing team to India.

As an Indian-based company, Britannia will have no problem in expanding through further acquisitions. Mr Riboud says it is "a question of opportunity."

Mr Pillai, aged 43, first linked with Nabisco in 1976, when they formed a 50-50 joint venture in Singapore called 20th Century Foods, to make and distribute snack foods and oil-roasted nuts. Almost 10 years later he sold his interests to Nabisco and became their president for the Asia, Africa and Pacific regions.

In India he became chairman of Britannia, purchasing personally or through his family 13 per cent of the company's stock, which gave Nabisco an indirect majority holding. In return Nabisco gave him an option to purchase its holding in Britannia if this was ever sold.

# Australian mining groups rise with improved prices

**By Chris Sherwell in Sydney**

TWO of Australia's larger mining companies yesterday reported improved profits for the six months to December.

Pasminco, the base metals group formed from the international zinc and lead mining and smelting operations of CRA and North Broken Hill Peko, announced an after-tax operating profit of A$77.6m (US$59.2m), up 42 per cent from the A$54.7m figure for the corresponding period the previous year.

The company attributed the result to good prices for lead and zinc and a lower exchange rate for the Australian dollar, which averaged 77 US cents, against 82 US cents previously.

Earnings were also affected by an accelerated after-tax provision of A$9m for forecast environmental expenditure in relation to a zinc smelter in the Netherlands.

Dominion Mining, a gold producer which has grown through its acquisition of the Whim Creek group, announced an after-tax profit of A$14.7m, a near-trebling of earnings from the previous A$5m.

Sales revenues increased fivefold to A$110m.

Dominion said its attributable gold production was 169,000 oz in the six months, compared with 32,400 oz in the previous December half-year. It added that its current one-for-five rights issue at A$1.50 per share, to raise A$98m, would make it debt-free.

# Nippon Life acquires 1% stake in Hongkong Bank

**By John Elliott in Hong Kong**

NIPPON LIFE Insurance of Tokyo has become the third Japanese insurance company in 10 months to acquire a 1 per cent stake on the open market in the Hongkong and Shanghai Banking Corporation.

The first two were Dai-ichi Mutual Life and Meiji Mutual Life. The purchase of the stakes has been actively encouraged by the bank, which wants to spread its stockholding internationally.

At present most of its 185,000 shareholders are believed to be in Hong Kong, which returns to Chinese sovereignty in 1998.

No shareholder can by law own more than 1 per cent of the bank's shares.

A Nippon Life official in Hong Kong said yesterday that the share purchase was one of a range of blue chip investments it had made on the Hong Kong stock exchange.

The bank's share price was cheap and it was a good long-term investment, he added.

Yesterday Hongkong Bank shares fell 20 cents to HK$7.35 (US$0.94) during trading which sent the local Hang Seng index down 3.98 per cent close of 2,862.27, the biggest one-day fall since last October.

The Nippon Life official would not say how much its 1 per cent stake had cost, but it is believed to be broadly in line with the Y6bn ($41.3m) cost of Meiji Life's stake, which was announced last month.

# Japanese brewers hit by weak yen

**By Robert Thomson in Tokyo**

JAPAN'S beer makers encountered a sharp brake on earnings last year after intense competition and the introduction of new brands drained advertising budgets, while the weakness of the yen increased the cost of raw materials.

Sapporo Breweries reported an operating loss for the first time and said that pre-tax profits fell 44.8 per cent to Y7.45bn ($51.2m) for the year to December, although a widening surplus on financial items bolstered earnings.

Sales fell 5.3 per cent to Y463.6bn, as newly released products failed to gain significant market share despite increased spending on advertising.

Sapporo expects sales to rise 8 per cent this year to Y500bn, with a 20 per cent increase in pre-tax profit to Y9bn.

Asahi Breweries, which recently replaced Sapporo as the second largest brewer, reported a 23.5 per cent fall in operating profit to Y11.12bn, but a 25 per cent rise in pre-tax profit to Y18.7bn, again buoyed by a stronger financial surplus.

Sales rose 20.2 per cent to Y655bn, due mainly to the continuing success of its Super Dry brand, which prompted the intense competition among brewers after its successful introduction in 1987. Super Dry beer has a higher alcohol content and a crisper taste than conventional Japanese beers.

This year, Asahi expects sales to rise 13.7 per cent to Y745bn, although pre-tax profit is expected to fall 9.1 per cent to Y17bn, with promotional expenses again rising.

Kirin Brewery, the industry leader, previously reported 1989 pre-tax profits of Y64.6bn, failing to match the Y64.7bn for the previous 11 months.

# INTERNATIONAL CAPITAL MARKETS

## Investment rule relaxed for funds in Canada

By Bernard Simon in Ottawa

AFTER YEARS of lobbying for greater flexibility to manage their portfolios, Canadian pension fund managers will be allowed to double the funds' foreign investments over the next five years.

In the Federal Budget tabled on Tuesday, the Government proposed lifting the ceiling on foreign holdings by pension and retirement funds in five equal stages from 10 per cent to 20 per cent of the book value of their total assets. The ceiling is maintained by means of a special tax of 1 per cent a month on foreign holdings in excess of the limit.

According to pension industry estimates, the new rules could free C$15bn to C$20bn (US$12.5bn-US$16.7bn) for foreign investment over the next five years, or about C$3bn to C$4bn a year. Many large funds are at or close to the 10 per cent limit.

Mr Neil Jacoby, manager of Shell Canada's pension fund, said that greater diversification will enable the pension funds not only to realise higher returns but also to reduce the risk of focusing on the relatively volatile Canadian markets. Shell's pension fund is among those which are bumping against the 10 per cent ceiling.

Canadian pension funds' existing foreign investments are concentrated in the US, so much of the increase under the higher ceiling is expected to flow to markets outside North America.

Several UK portfolio managers have set up offices in Toronto and Montreal in the past few years in anticipation of a wider interest in offshore investment among Canadian institutions. However, some pension funds may decide to handle more of their international investment themselves, as this becomes a more important part of their portfolios.

Mr Michael Wilson, Finance Minister, said the new limit seemed "reasonable and realistic" enough to give pension funds the opportunity to maximise their returns. The Government had turned down a request from pension funds to lift the limit entirely, fearing that such a move would disrupt domestic capital markets.

Canada's biggest pension fund is the Ontario Municipal Employees Retirement System, with assets (at market value) of C$10.5bn at the end of 1988. Other leading funds include those of Canadian National Railways, Bell Canada and Canadian Pacific.

## Japan ponders installing US Globex system

THE Japanese Ministry of Finance said yesterday that it is considering allowing domestic banks and securities firms to install a 24-hour global trading system for financial futures known as Globex, now being developed by the Chicago Mercantile Exchange (CME), Kyodo reports from Tokyo.

The proposed installation – details of which are yet to be disclosed – will enable Japanese financial institutions to participate in futures dealings such as US Treasury bills which are not listed on the Tokyo financial futures market, the ministry said.

A monitoring system to protect investors from fraud will be worked out jointly by the ministry and the US Commodity Futures Trading Commission (CFTC).

The legal status of the systems and trading rules should be established before the introduction of Globex, expected this autumn, the ministry said.

The move came in response to repeated US requests for early approval of Globex in Japan.

Globex is a computer system for financial and stock futures trading. The CME plans to begin night trading with the system soon and anticipates participation from east Asian markets, including Japan.

## Nikko buys seat on Manila exchange

NIKKO Securities, the fourth largest Japanese brokerage house, has bought a seat on the Manila Stock Exchange, according to Mr Gerardo Urbina, the exchange's president, AP reports from Manila.

Nikko is the sixth foreign broker to buy a seat on the exchange, following James Capel, Dao Heng Holdings, Sun Hung Kai, First Pacific Group and Asia Securities.

The Philippine securities market will be an important emerging Asian market this decade, says Mr Junsuke Ikegame, a Nikko board member.

Mr Urbina said the move would help raise investor confidence in the Philippines, which had been lost after a coup attempt last December.

# Belgium to set up futures exchange based on screen

By Deborah Hargreaves

A FUTURES and options exchange is being set up in Belgium which will trade on a screen-based system.

Belfox, the newly formed company which will operate the exchange, said yesterday that it would start developing the system in March, and aims to install the system later this year with a view to beginning trading early in 1991.

Belfox has entered an agreement with London's International Commodities Clearing House (ICCH) to use a modified version of the system being used at the New Zealand Futures Exchange, and ICCH will act as project manager for the Belgian exchange.

Brussels' announcement makes Belgium the latest in a rush of countries to set up derivative exchanges, and follows the start of options trading on the Deutsche Terminbörse at the end of January.

In contrast to the DTB and Switzerland's Soffex, Belfox has made futures trading a priority and has said it will launch a futures contract on the 10-year notional government bond as its first product. This will be accompanied by options on 10 Belgian securities, and an index option with European currency unit futures is earmarked as a possibility for a later date.

There has been over-the-counter trading in Belgium on notional bond futures for the past two years, with volume reaching some 800-1,000 lots a day. This would be break-even for the futures exchange, said Mr Chris van Acken, the company secretary, yesterday.

The new exchange is being set up by five leading Belgian banks and the Brussels Stock Exchange. Between them these groups have raised BFr250m ($7m) in capital. Mr van Acken said the exchange would have a potential 40 to 50 members if the brokers trading in the off-exchange market became active on the screen market. He said it had also found interest among foreign banks.

There have been talks for two years on a futures exchange for Belgium, and the new company approached a variety of suppliers. Belfox says it considered using the same system as that used by Soffex and the DTB, but a futures prototype for that system is not yet in place.

The ICCH will also provide a clearing, banking and risk management function for the new exchange.

# Barings expands Korea fund

By Deborah Hargreaves

BARING Brothers is soon to offer a third tranche of $50m equity in its Korea-Europe fund amid a rush of investor interest in popular country funds.

Institutional investors are becoming aware of the world's emerging stock markets. One of the easiest ways to invest in these markets is through one of the 150 country funds which have been set up in recent years.

Although there are seven Korea funds available in the UK, Korea-Europe is the only one listed in London, with Korea Fund Inc listed in New York. When Barings launched Korea-Europe in 1987, it experienced such a rush of demand that the $30m worth of shares launched at $10 each rose in price to $35 almost immediately.

After that, the investment firm made a second tranche available in June 1988 and followed that with a stock split at the end of last year. This has brought the share price down from the huge premium to net asset value at which they had been trading. Shares in Korea-Europe are trading at around $8.50 on net assets of some $5 a share.

The fund is managed by Schroder Investment Management with Korean securities houses. Mr Peter Irving at Schroder emphasises the fund's long-term interest in growing Korean companies.

One of the reasons for the growth in popularity of country funds is that they provide an important research function that would be difficult for individual investors to do on their own. Mr Irving stressed how under-researched Korean companies are, particularly regarding new issues.

In the past two years, the Korean Government has promoted equity rights issues for Korean companies, but the programme has been so successful that there is a risk of over-supply in the market. This has discouraged some domestic retail investors from putting their money in the stock market.

The problems of over-supply and concern about inflation in the Korean economy led to a mediocre performance for the Korean Stock Exchange last year. However, Barings expects a return to strength this year.

Foreign investors still face strong restrictions on investing in Korea. The country funds can invest only up to 25 per cent of their funds in each industry sector.

## FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on February 21

| US DOLLAR STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Austria 9½ 95 | 140 | 100¾ | 101¼ | [illegible] | [illegible] | 9.22 |
| B.F.C.E. 9¼ 94 | 175 | 96¾ | 97¼ | [illegible] | [illegible] | 9.19 |
| B.F.C.E. 9¾ 94 | 150 | 100 | 100½ | [illegible] | -1 | 9.20 |
| Brit. Tel. Fin. 9⅞ 98 | 250 | 99⅝ | 100¼ | [illegible] | [illegible] | 9.38 |
| Canada 9 96 | 1000 | 100 | 100½ | [illegible] | [illegible] | 8.94 |
| C.C.C.E 9¼ 95 | 300 | 100 | 100¼ | [illegible] | [illegible] | 9.21 |
| C.N.C.A 9⅝ 93 | 150 | †99⅞ | 100⅜ | [illegible] | [illegible] | 9.30 |
| Credit National 7¾ 92 | 100 | 96¼ | 97¼ | [illegible] | [illegible] | 8.93 |
| Credit National 9½ 92 | 160 | †100¾ | 101¼ | 0 | -0⅛ | 9.01 |
| Dai-Ichi Kan 9⅞ 92 | 150 | 100⅞ | 101 | 0 | -0⅛ | 9.24 |
| Denmark 8¾ 94 | 150 | †95¾ | 96¼ | -0⅛ | -1 | 9.36 |
| E.E.C. 7 91 | 100 | 96⅞ | 97⅛ | 0 | -0⅛ | 8.96 |
| E.E.C. 10 93 | 140 | †102 | 102⅜ | -0⅛ | -0⅛ | 9.17 |
| E.I.B. 8½ 93 | 150 | 96⅞ | 96⅞ | -0⅛ | -1⅛ | 9.38 |
| Eurofima 10⅛ 93 | 100 | †102¼ | 102⅝ | -0⅛ | -0⅛ | 9.19 |
| Elec. De France 9 98 | 200 | 98½ | 99 | -0⅛ | -1 | 9.22 |
| Elec. De France 9¾ 99 | 200 | — | — | — | — | — |
| Finland 9 96 | 250 | 98⅞ | 99⅛ | -0⅛ | -1⅛ | 9.23 |
| Finn. Exp. Cd. 8½ 92 | 200 | 98⅛ | 99⅛ | -0⅛ | -0⅛ | 9.18 |
| Finn. Exp. Cd. 9¾ 95 | 200 | 100⅛ | 100⅝ | 0 | -0⅛ | 9.26 |
| Ford Motor Credit 8 91 | 250 | †98⅛ | 99⅛ | 0 | -0⅛ | 8.98 |
| Gen. Elec. Cap. Crp. 10 1/2 91 | 300 | 101⅛ | 101⅝ | -0⅛ | -0⅛ | 9.19 |
| G.M.A.C. 8¾ 94 | 500 | †96⅛ | 96⅝ | -0⅛ | -1⅛ | 9.66 |
| G.M.A.C. 9 95 | 300 | 97⅛ | 97⅝ | -0⅛ | -1⅛ | 9.54 |
| Gen. Mtrs. Corp. 9⅛ 92 | 200 | 99⅞ | 100 | -0⅛ | -0⅛ | 9.26 |
| IBM Credit Corp. 8⅝ 92 | 400 | 98⅞ | 99⅛ | +0⅛ | -0⅛ | 8.97 |
| IBM Credit Corp. 8⅞ 91 | 250 | 99⅝ | 99⅞ | 0 | -0⅛ | 9.07 |
| IBM Credit Corp. 9 92 | 250 | 99⅛ | 100⅛ | 0 | -0⅛ | 8.95 |
| IBM Credit Corp. 9⅛ 92 | 250 | 100⅝ | 101⅛ | 0 | -0⅛ | 9.00 |
| Italy 8½ 94 | 1500 | 97⅛ | 97⅝ | 0 | -0⅞ | 9.16 |
| Italy 9½ 95 | 1000 | 101 | 101½ | -0⅛ | -1 | 9.19 |
| Italy 9⅞ 99 | 1000 | 101 | 101⅛ | -0⅛ | -1⅛ | 9.43 |
| Itoh C. W/W 4⅛ 94 | 1000 | 104 | 105⅛ | -5⅛ | -4⅛ | 3.45 |
| Japan Dev. Bank 10 96 | 200 | 103 | 103⅛ | -0⅛ | -1⅛ | 9.30 |
| KFW Intl. Fin. 9 94 | 300 | 99 | 99⅛ | -0⅛ | -0⅞ | 9.22 |
| L.T.C.B. of Japan 8¾ 96 | 200 | 96⅛ | 96⅝ | -0⅛ | -1⅛ | 9.50 |
| L.T.C.B. of Japan 9⅛ 92 | 200 | 100 | 100⅜ | 0 | -0⅞ | 9.16 |
| New Zealand 9 94 | 850 | 98⅛ | 98⅝ | 0 | -0⅞ | 9.43 |
| Nippon Tel. & Tel. 8½ 96 | 200 | 95⅛ | 95⅞ | -0⅞ | -1 | 9.36 |
| Nippon Tel. & Tel. 9⅝ 98 | 250 | 99⅞ | 100⅛ | -0⅛ | -1⅛ | 9.36 |
| Norway 8¾ 93 | 500 | 99⅛ | 99⅞ | 0 | -0⅛ | 8.89 |
| Portugal 8¾ 91 | 300 | †98⅝ | 99⅛ | 0 | 0 | 9.36 |
| Sumitomo Corp. W/W 4 93 | 1500 | 109⅞ | 111⅛ | -3⅛ | -8⅛ | 0.81 |
| Sweden 8¾ 96 | 200 | 97⅞ | 98⅜ | -0⅛ | -1⅛ | 9.16 |
| Toyota 9½ 91 | 200 | 100⅝ | 101 | 0 | -0⅛ | 9.08 |
| Toyota Mtr. Corp. W/W 4 93 | 1500 | †102 | 103⅛ | -1 | -1½ | 3.10 |
| Victorian Rep 11⅝ 92 | 150 | 104 | 104½ | -0⅛ | -0⅞ | 9.34 |
| World Bank 8⅞ 99 | 1500 | 96⅛ | 96⅝ | +0⅛ | -1⅞ | 8.84 |
| World Bank 9 97 | 300 | 99 | 99⅞ | -0⅛ | -1 | 9.15 |
| World Bank 9 93 | 300 | 100⅛ | 100½ | -0⅛ | -0⅛ | 8.88 |
| World Bank 9⅛ 98 | 300 | 99⅞ | 99⅞ | -0⅛ | -1⅛ | 9.32 |
| World Bank 9⅝ 99 | 500 | 101⅛ | 101⅞ | -0⅛ | -1⅛ | 9.32 |
| World Bank 9¾ 96 | 300 | †101⅞ | 102⅛ | -0⅛ | -1⅛ | 9.29 |

Average price change... On day -0⅛ on week -1⅛

| DEUTSCHE MARK STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Asian Dev. BK. 6 94 | 200 | 85⅞ | 86⅛ | -0⅛ | -2½ | 9.73 |
| Austria 6⅛ 99 | 750 | †85⅛ | 85⅞ | +1⅛ | -0⅛ | 9.11 |
| Bk. Frgn. Econ. USSR 7 96 | 750 | *85 | 86 | 0 | -2⅛ | 10.31 |
| Bank of Tokyo 5¾ 93 | 100 | †87⅞ | 88⅛ | -0⅛ | -4 | 10.60 |
| Commerzbank o/s. 5⅞ 93 | 300 | 90⅛ | 90⅞ | +0⅛ | -1½ | 9.33 |
| Credit Foncier 6⅛ 99 | 500 | †84⅛ | 84⅞ | +0⅛ | -1⅛ | 10.46 |
| E.I.B. 6¼ 99 | 600 | 82 | 82⅛ | +1⅛ | -1⅛ | 9.25 |
| E.I.B. 6½ 99 | 300 | — | — | — | — | — |
| E.I.B. 6¾ 96 | 600 | 88⅛ | 88⅞ | +0½ | +0⅞ | 9.15 |
| E.I.B. 6¾ 95 | 300 | 89 | 89½ | +1⅛ | -0⅛ | 9.37 |
| E.I.B. 8 2000 | 500 | †94½ | 94⅞ | +0⅛ | -2⅛ | 8.81 |
| Euro. Coal & Steel 7¾ 94 | 100 | †98½ | 99 | 0 | -0⅛ | 8.06 |

Average price change... On day +0⅛ on week -1⅛

SWISS FRANC STRAIGHTS

Average price change... On day +0⅛ on week -0⅛

| YEN STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Canada 6¼ 91 | 80 | 99⅛ | 99⅝ | 0 | +0⅛ | 0.07 |
| Canada 5¾ 93 | 80 | 96¼ | 96½ | +0⅛ | -0⅛ | 6.83 |
| Cr.Local France 6¼ 94 | 300 | 96⅛ | 96⅞ | -0⅛ | -0⅛ | 6.57 |
| Denmark 6¼ 95 | 300 | 96⅞ | 97¼ | -0⅛ | -0⅛ | 6.56 |
| E.I.B. 4⅞ 93 | 30 | 94⅛ | 94⅞ | +0⅛ | +0⅛ | 6.85 |
| Norway 5¼ 95 | 50 | 92⅛ | 92⅞ | 0 | -0⅛ | 6.85 |
| Sweden 4⅞ 93 | 50 | 93½ | 93¾ | +0⅛ | 0 | 6.89 |
| World Bank 5¼ 96 | 10 | 88¼ | 89¼ | 0 | -0⅛ | 6.95 |
| World Bank 7 94 | 20 | 100⅞ | 101⅛ | +0⅛ | 0 | 6.74 |

Average price change... On day 0 on week -0⅛

| OTHER STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Abbey Nat. 10⅛ 94 C$ | 150 | 92⅛ | 92⅞ | -0⅛ | -2 | 12.44 |
| Abbey Nat. 11⅞ 93 £ | 100 | 94⅛ | 94⅝ | +0⅛ | -1 | 14.07 |
| Aegon 7¾ 92 Fl | 150 | 98 | 98½ | 0 | 0 | 8.06 |
| Alg. Bk. Ned. 5¾ 93 Fl | 200 | 91⅛ | 92 | +0⅛ | 0 | 8.94 |
| Austria 7⅛ 94 ECU | 100 | *88⅛ | 89⅛ | 0 | -0⅛ | 11.01 |
| Barclays Aust. 13½ 91 A$ | 100 | 96⅛ | 97⅛ | -0⅛ | -0⅛ | 15.73 |
| Belgium 8⅛ 94 Ecu | 150 | *90⅛ | 91⅛ | 0 | -0⅛ | 11.01 |
| Bell Canada 10¾ 04 C$ | 200 | — | — | — | — | — |
| BP Capital 9¼ 93 £ | 100 | 89⅝ | 90 | +0⅛ | -2⅛ | 13.97 |
| British Airways 10 98 £ | 100 | 85 | 85½ | +0⅛ | -1 | 13.07 |
| Brit. Telecom 9¾ 93 £ | 150 | 89⅝ | 90⅛ | +0⅛ | -0⅛ | 13.77 |
| Comm. Bk. Aust. 12¾ 93 A$ | 100 | †93⅞ | 94⅜ | -0⅛ | -1⅛ | 14.96 |
| Comm. Bk. Aus. 13¼ 94 NZ$ | 60 | 101⅞ | 102⅞ | 0 | -1⅛ | 13.11 |
| Credit Foncier 9 96 Ecu | 100 | *91⅛ | 91⅝ | 0 | -1⅛ | 10.92 |
| Cr.Local France 9¼ 92 Ecu | 100 | *96⅛ | 96⅝ | 0 | -0⅛ | 10.95 |
| Deut. Bk. Aus. 13¾ 93 A$ | 125 | 97¾ | 98 | -0⅛ | -0⅛ | 14.17 |
| Deutsche Bk. Fin. 15 94 A$ | 100 | 101¾ | 101⅞ | -0⅛ | -0⅛ | 14.40 |
| Elec. De France 9¼ 99 C$ | 150 | — | — | — | — | — |
| E.I.B. 7 96 LFr | 100 | *88½ | 89⅛ | -0⅛ | -4⅛ | 9.53 |
| E.I.B. 7⅛ 99 Fl | 150 | 87⅞ | 87⅞ | 0 | -0⅛ | 9.11 |
| E.I.B. 9 99 Ecu | 150 | *†91⅞ | 92⅛ | 0 | -0⅛ | 10.36 |
| Eurofima 7⅛ 94 Ecu | 100 | *89⅛ | 90 | 0 | -0⅛ | 10.96 |
| Export Dv. Crp. 8⅛ 92 Ecu | 100 | *†96⅛ | 96⅝ | 0 | +0⅛ | 10.66 |
| Fed. Bus. Dv. Bk. 9 94 Ecu | 100 | *†94⅛ | 94⅞ | 0 | +0⅛ | 10.62 |
| Fed. Bus. Dv. Bk. 9¾ 92 C$ | 75 | †94⅛ | 94⅞ | -0⅛ | -1⅛ | 12.61 |
| Ford Cr. Can. 10¾ 93 C$ | 100 | †95⅛ | 95⅞ | -0⅛ | -1⅛ | 12.60 |
| Ford Cred. Can. 10⅞ 96 C$ | 125 | 94 | 94½ | -0½ | -2⅛ | 12.27 |
| Ford Cred. Fund. 10⅞ 93 £ | 60 | 90⅞ | 91⅞ | +0⅛ | -0⅞ | 13.91 |
| G.M.A.C. Canada 11 [illegible] C$ | 100 | 97⅞ | 98 | -0⅛ | -1⅛ | 12.48 |

FLOATING RATE NOTES | Spread | Bid | Offer | C.dte | C.cpn | C.yld

Average price change... On day +0.00 on week +0.02

| CONVERTIBLE BONDS | Cnv. date | Cnv. price | Bid | Offer | Chg. day | Prem. |
|---|---|---|---|---|---|---|
| Minolta Camera 2¼ 94 DM | 12/86 | 1004. | 104¼ | 105¼ | -0¾ | 7.75 |
| MCA Inc 5¼ 02 US | 9/87 | 69.62 | 92½ | 93½ | -1¼ | 21.38 |
| Mitsubishi Bk. 3¼ 04 US | 5/89 | 3266. | 84¼ | 85¼ | -2¾ | 1.74 |
| Next Plc 5¾ 03 £ | 11/87 | 4.3 | 95¼ | 96¼ | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Rank Hovis 4⅞ 03 £ | [illegible] | 3.5 | 116 | 117 | -2 | [illegible] |
| Redland 7¾ 02 £ | [illegible] | [illegible] | [illegible] | [illegible] | -2¾ | [illegible] |
| Saatchi & Saatchi 6¾ 03 £ | [illegible] | 4.42 | [illegible] | [illegible] | -2 | 65.12 |
| Silicon Graphics 8 04 US | [illegible] | 23.38 | [illegible] | [illegible] | [illegible] | [illegible] |
| Sumitomo Bank 3¾ 04 US | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Texas Inst. 2¾ 02 US | [illegible] | 62.87 | [illegible] | [illegible] | [illegible] | [illegible] |
| Utd. N'papers 8 04 £ | [illegible] | 8.77 | 121 | 122 | [illegible] | [illegible] |
| W.R. Grace 6¼ 02 US | [illegible] | 49.12 | [illegible] | [illegible] | [illegible] | [illegible] |

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

## INTERNATIONAL CAPITAL MARKETS

# Late recovery in Japan helps rally in bunds

By Andrew Freeman

IN GERMANY, the late rally on the Japanese market sparked some short covering at the opening and prices moved upward on both cash and futures markets. By the end of the day a fair rally had given traders their first real respite

### GOVERNMENT BONDS

for many sessions, but underlying sentiment remained nervous.

The 7¾ per cent bund was fixed in the morning at 93.47, against 92.45 on Tuesday, to yield 8.75 per cent. It continued to rally throughout the afternoon, reaching 93.77 offered, a yield of 8.71 per cent.

The absence of retail buying left the market largely in the hands of professionals. Demand was concentrated on yields in the five to eight-year maturity range, as prices in general rose by well over 1 point.

The Bundesbank allocated DM10bn for a 28-day repurchase agreement at rates *between 7.85 and 8.35 per cent.* It drained DM19.5bn from the market, resulting in a larger shortfall than expected.

This caused the bund future to drop briefly, but did little to interrupt another volatile session. The future opened around 80 pfennigs above Tuesday's close of 80.65 and traded up for most of the day, closing at 81.45.

■ IN THE UK, gilts enjoyed an early rally of around ½ point on the back of the overnight performance in Japan. However, activity was thin as investors showed uncertainty as to whether the rally would be decisive, and this proved enough to limit the day's progress to the early gains.

The benchmark gilt maturing 2003-07 was trading steadily at 103¾, ⅝ higher than Tuesday's close to yield 11.19 per cent.

■ US bond prices were little changed yesterday, as the recoveries in the Japanese and European markets were offset by worse than expected domestic inflation news.

The Labor Department reported that the consumer price index increased 1.1 per cent in January. Excluding the volatile food and energy components the index rose 0.6 per cent. Both figures were higher than expected. Market economists had on average forecast a CPI increase of 0.8 per cent *and an inflation rate of about* 0.4 per cent excluding food and energy.

At lunchtime, the Treasury's benchmark long bond was quoted at 98⅛, up ⅛ on the day to yield 8.65 per cent. Federal funds traded between 8¼ and 8⅛ per cent throughout the morning.

### BENCHMARK GOVERNMENT BONDS

| | | Coupon | Red Date | Price | Change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| UK GILTS | | 10.000 | 4/93 | 93-09 | +07/32 | 12.55 | 12.26 | 12.50 |
| | | 10.500 | 5/99 | 94-00 | +14/32 | 11.58 | 11.26 | 11.26 |
| | | 9.000 | 10/08 | 86-24 | +15/32 | 10.66 | 10.33 | 10.30 |
| US TREASURY * | | 8.500 | 02/00 | 99-05 | +03/32 | 8.62 | 8.36 | 8.54 |
| | | 8.500 | 02/20 | 98-08 | +02/32 | 8.66 | 8.41 | 8.58 |
| JAPAN | No 119 | 4.800 | 6/99 | 88.7341 | +1.401 | 6.77 | 6.76 | 6.65 |
| | No 2 | 6.700 | 3/07 | 94.2107 | +0.230 | 6.41 | 6.38 | 6.50 |
| GERMANY | | 7.125 | 12/99 | 90.0500 | +1.450 | 8.67 | 8.51 | 7.73 |
| FRANCE | BTAN | 8.000 | 10/94 | 89.9102 | +0.481 | 10.85 | 10.69 | 10.30 |
| | OAT | 8.125 | 5/99 | 87.6900 | +1.170 | 10.23 | 10.00 | 9.50 |
| CANADA * | | 9.250 | 12/99 | 92.1250 | +0.675 | 10.56 | 10.23 | 9.84 |
| NETHERLANDS | | 7.500 | 11/99 | 90.2500 | +0.950 | 9.04 | 8.69 | 8.36 |
| AUSTRALIA | | 12.000 | 7/99 | 93.1793 | -0.352 | 13.28 | 13.06 | 12.96 |

London closing. *denotes New York morning session
Yields: Local market standard Prices: US, UK in 32nds., others in decimal

*Technical Data/ATLAS Price Sources*

# DG Bank refuses to stand by bond sales

By Katharine Campbell in Frankfurt

DEUTSCHE Genossenschaftsbank, the umbrella organisation for the co-operative banks, yesterday said that it would not honour liabilities in the West German government bond market to several French bank counterparties.

Talks of currency union between East and West Germany have decimated the German bond market, with holders of bunds facing heavy losses and volatilities in the London International Financial Futures Exchange (Liffe) market doubling in a short space of time.

DG Bank recently dismissed Mr Friedrich Stell, a senior bond trader, for "transgressing his authority." He sold bonds unbeknown to his superiors and without documentation, and struck supplementary agreements he was not entitled to, DG said.

A representative would not elaborate, save to strongly deny rumours that the bank's troubles were connected with trading in the Liffe market.

However, the bank does intend to repurchase the bonds from the unnamed French counterparties, because the "promises were not made either legally or on the basis of normal market practice."

The most common reason for entering into a repurchase agreement is to allow a fixed income trader to "go short" of cash bonds, that is, to sell stock the trader does not possess.

In this way the trader can take advantage of price discrepancies between cash and futures prices, by buying futures contracts, and shorting the underlying bonds.

It appears that the trader at DG Bank was on the other side of a number of repurchase agreements, selling bonds and agreeing to buy them back at a later date.

It is up to the bank on this side of the repurchase to furnish the document. DG Bank argues that the counterparties are now disputing documentation on repos that was sent to them some while ago. They should have complained at the time, the bank says.

# Turkey's $200m deal meets poor demand

By Norma Cohen

WITH WORLD bond markets struggling under the spectre of increased interest rates, Eurobond investors have been driven to the sidelines.

However, underwriters have been able to identify pockets of demand for certain types of

### INTERNATIONAL BONDS

securities, and a spate of new issues was launched yesterday.

The largest of these was a $200m seven-year deal for the Republic of Turkey, the borrower's second Eurobond in four months. The issue, lead managed by Mitsui Finance International, carried a coupon of 10¾ per cent and is priced at 100.20 to yield 220 basis points over US Treasuries if sold at a discount equal to its 1⅞ per cent total fees.

Although the lead manager quoted the deal just outside fees at less 2, it was seen quoted on brokers' screens at less 2¼ bid – despite a modest improvement in underlying US government bonds – with dealers blaming the poor performance on mispricing.

Indeed, some co-leads were said to have been offered a role in the deal with no obligation to take any bonds onto their books. Although the spread is far more generous than many others around, and the borrower is by certain key measures an improving credit, dealers reported little demand for the bonds. They said investors could have achieved better returns by asset-swapping proceeds of Turkey's previous bond than with the latest issue.

There was also a Y40bn 10-year Eurobond for European Investment Bank, lead managed by Yamaichi International Europe. While Tokyo bond markets have been beset by fears of a discount rate rise, yields on Euroyen bonds and confidence in the currency have prompted demand from Continental investors.

The bonds carry a coupon of 6⅝ per cent and are priced at £101¼ for an effective yield, after discounting for fees, of 6.69 per cent. This compares with yields on the benchmark 10-year government bond of 6.54 per cent. Some dealers described the pricing as aggressive, but the issue was trading at a discount equal to full fees and continental accounts were seen to be buyers.

EIB also tapped the market in Switzerland, issuing a SFr150m seven-year private placement bearing a coupon of 7½ per cent and priced at 100½. Union Bank of Switzerland is lead manager.

Meanwhile, interest rate jitters which sent the Tokyo stock exchange index plunging by over 1,000 points apparently prompted a round of buying in the equity warrant market by hedge funds and bargain hunters. Analysts at Cresvale Group estimate that equity warrant prices have fallen about 10 per cent this week, but noted volatile trading in certain issues that sent prices up sharply during the London trading day yesterday.

One new sterling deal emerged yesterday: a £83.4m Eurobond for British Telecom that is intended to be fungible with an existing issue, of which £300m will now be outstanding. The deal, lead managed by UBS Phillips and Drew, carries a coupon of 13¾ per cent and is priced at 100⅞, offering investors a yield 88 basis points over the UK Government's 10 per cent bonds due 1993. This is above the 78 basis point spread available on the existing tranche.

### NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees | Book runner |
|---|---|---|---|---|---|---|
| **YEN** | | | | | | |
| EIB(a)♦ | 40bn | 6⅝ | 101¼ | 2000 | 1⅞/1¼ | Yamaichi Int. (Europe) |
| CIBC(c)♦ | 5bn | 8.6 | 101¼ | 1991 | 1¼ | New Japan Securities |
| **US DOLLARS** | | | | | | |
| Turkey, Republic of(a)♦ | 200 | 10¾ | 100.20 | 1997 | 1⅞/1¼ | Mitsui Finance Int. |
| DBS Land Ltd.(f)♦♦ | 75 | 1 | 100 | 1995 | 2¼/1½ | Daiwa Europe/Nomura Int. |
| **STERLING** | | | | | | |
| British Telecom(d)♦ | 83.4 | 13¾ | 100⅞ | 1993 | 1⅞ | UBS Phillips & Drew |
| **AUSTRALIAN DOLLARS** | | | | | | |
| Toronto-Dominion Aust.(g)♦ | 25 | 18¼ | 101⅞ | 1991 | 1/⅝ | Westpac/Kredietbank Int. |
| **SWISS FRANCS** | | | | | | |
| EIB(a)★★♦ | 150 | 7½ | 100½ | 1997 | 1⅝ | UBS |
| Sumitomo Coal Mining(b)★★§ | 50 | Zero | 100 | 1994 | 1⅝ | Banca del Gottardo |
| Daikure Co.(a)★★♦ | 11 | 7⅞ | 100½ | 1995 | 1⅝ | IBJ (Switzerland) |
| **FRENCH FRANCS** | | | | | | |
| Nord-Est(e)♦ | 360 | Zero | 98.80 | 1993 | 1⅝ | Banque Paribas |

★★Private placement. §Convertible. ♦With equity warrants. ♦Final terms. a) Non-callable. b) Put option 30/9/92 at 108½ to yield 3.26%. c) Deposit notes. Redemption linked to Nikkei stock index. d) Issue fungible with existing issue taking size to £300m. Non-callable. e) Redemption linked to CAC French Stock Market Index. f) Exercise price S$3.50, exchange rate S$1.86 per US$. Exercise premium 1.3% over 5-day average. (g) Deposit notes. Redemption in either A$ or NZ$ at borrower's option.

# Eastern Europe financial reform urged

By Stephen Fidler, Euromarkets Correspondent

COUNTRIES in eastern Europe should not delay introduction of reforms to their financial sectors, according to a study published this month by the Institute of International Finance, the Washington-based think tank whose membership mainly comprises international banks.

It says that its conclusion, based on case studies of five countries, is contrary to the conventional wisdom of many development economists, including some at the World Bank and International Monetary Fund. It also has implications for countries in eastern Europe now undergoing economic reform.

Many economists hold that financial sector reform should be delayed until goods and labour markets have been liberalised. This is to avoid the harmful over-adjustment or overshooting of prices in the financial markets which they believe arises because these markets respond more quickly than others. It may also exaggerate capital outflows.

The IIF concludes the opposite. It says that those involved in these issues believe that, given the political constraints and vested interests opposing change, any opportunity to implement desirable reforms should be seized.

It says that in eastern Europe the move towards more market-oriented economies "will require that major efforts be made to strengthen grossly underdeveloped financial systems at an early stage." In Poland, for instance, savers need to be offered *financial assets which have some prospect* of retaining their real value.

Structural reforms will also have budgetary costs and will require ways of financing borrowing requirements in a non-inflationary way.

The financial markets provide an alternative to bureaucracy, or *nomenklatura*, in making critical investment decisions. Delay in developing them will undermine reform by entrenching the nomenklatura, the survey says.

Also, markets can minimise the undesirable consequences of other reform measures – for example, by providing the tools to combat inflation – and create the conditions necessary to effect other reforms, such as privatisations.

Its study of five countries – New Zealand, Malaysia, Tunisia, Greece and Chile – lead it to other conclusions.

● It is essential for the central bank to have the freedom to pursue an independent monetary policy and not be responsible for financing the government deficit.

● There are benefits to lifting excessive constraints on banks – such as interest rate ceilings – developing short-term interbank and money markets and tolerating a liberal *environment for foreign* banks.

But problem banks should be allowed to fail, since if the discipline of failure is not introduced, it can cause difficulties to accumulate until they become a systemic problem. Chile's banking crisis in 1982-83 highlights the importance of effective bank supervision.

It was largely the experience of South American states such as Chile which encouraged the view that the financial sector should be reformed last. Chile's financial reform was viewed in some quarters as excessive or carried out too early, but the study says the problem was that reform was partial and in some respects poorly executed.

"The root cause of the crisis was a tentative and poorly designed approach to disinflation rather than excessive liberalisation," it adds.

# First Taiwanese convertible bond issue approved

TAIWAN'S Securities and Exchange Commission has approved the issuance of T$1.5bn in convertible bonds by Far Eastern Textile, a leading textile manufacturer on the island, AP reports.

The issue is the country's first in convertible bonds. They will have a five-year maturity and carry an annual interest rate of 4.25 per cent. Bond holders will be allowed to convert the bonds into Far Eastern Textile shares after six months.

Taiwan International Securities, an underwriter for Far Eastern convertible bonds, said the issue would probably begin in May.

In January 1989 the Taiwan SEC allowed Yuen Foong Yu Paper Manufacturing to issue the island's first exchangeable bonds. In that case, bond holders could convert the bonds into Chung Hwa Pulp shares.

## LONDON MARKET STATISTICS

### FT-ACTUARIES SHARE INDICES

Compiled by the Financial Times Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| | EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section) | Wed Feb 21 1990 Index No. | Day's Change % | Est. Earnings Yield% (Max.) | Gross Div. Yield% (Act at (25%) | Est. P/E Ratio (Net) | xd adj. 1990 to date | Tue Feb 20 Index No. | Mon Feb 19 Index No. | Fri Feb 16 Index No. | Year ago (approx) Index No. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | CAPITAL GOODS (203) | 849.14 | -0.7 | 13.33 | 5.03 | 9.14 | 1.62 | 854.71 | 861.68 | [illegible] | 913.84 |
| 2 | Building Materials (27) | 1033.97 | -0.1 | 15.21 | 5.46 | 8.20 | 0.50 | 1035.50 | 1052.59 | 1059.06 | 1146.54 |
| 3 | Contracting, Construction (37) | 1429.08 | -0.4 | 17.38 | 5.54 | 7.57 | 0.67 | 1434.60 | 1447.23 | 1458.50 | 1686.77 |
| 4 | Electricals (10) | 2379.85 | -1.7 | 11.31 | 5.25 | 11.11 | 0.75 | 2420.77 | 2442.60 | 2465.83 | 2660.21 |
| 5 | Electronics (30) | 1875.54 | -0.2 | 9.30 | 3.85 | 13.71 | 10.21 | 1879.83 | 1891.14 | 1915.82 | 2073.11 |
| 6 | Engineering-Aerospace (8) | 414.91 | -0.6 | 14.57 | 5.32 | 8.43 | 0.84 | 417.56 | 420.08 | 428.45 | 0.00 |
| 7 | Engineering-General (44) | 457.02 | -0.8 | 12.38 | 5.16 | 9.81 | 1.28 | 460.57 | 463.10 | 466.05 | 0.00 |
| 8 | Metals and Metal Forming (6) | 459.47 | -0.9 | 25.66 | 6.54 | 4.40 | 0.00 | 463.71 | 465.88 | 474.25 | 522.30 |
| 9 | Motors (16) | 356.76 | -1.1 | 14.82 | 5.91 | 7.91 | 0.00 | 360.74 | 364.12 | 367.42 | 309.64 |
| 10 | Other Industrial Materials (25) | 1532.44 | -1.0 | 11.00 | 4.70 | 10.55 | 3.06 | 1548.19 | 1556.80 | 1564.30 | 1500.30 |
| 21 | CONSUMER GROUP (177) | 1232.26 | -0.8 | 9.16 | 3.86 | 13.64 | 3.05 | 1242.28 | 1254.06 | 1270.34 | 1166.88 |
| 22 | Brewers and Distillers (22) | 1442.81 | -0.5 | 9.68 | 3.65 | 12.74 | 6.54 | 1450.19 | 1463.21 | 1477.25 | 1291.41 |
| 25 | Food Manufacturing (19) | 1060.88 | -1.3 | 10.12 | 4.18 | 12.39 | 1.70 | 1074.26 | 1085.85 | 1098.50 | 1045.67 |
| 26 | Food Retailing (16) | 2265.24 | -0.7 | 8.96 | 3.35 | 14.49 | 6.99 | 2280.85 | 2302.14 | 2333.10 | 2002.71 |
| 27 | Health and Household (13) | 2408.21 | -0.8 | 6.50 | 2.72 | 18.32 | 0.20 | 2426.94 | 2450.84 | 2488.54 | 2094.19 |
| 29 | Leisure (33) | 1533.76 | -1.2 | 8.72 | 3.86 | 14.11 | 4.83 | 1551.91 | 1564.63 | 1582.91 | 1503.23 |
| 31 | Packaging & Paper (13) | 562.23 | -0.8 | 12.50 | 5.51 | 10.11 | 0.90 | 567.01 | 572.32 | 575.98 | 588.36 |
| 32 | Publishing & Printing (17) | 3391.47 | -1.5 | 9.54 | 5.19 | 13.38 | 21.20 | 3443.94 | 3485.25 | 3519.82 | 3701.33 |
| 34 | Stores (31) | 778.42 | -0.5 | 11.18 | 4.82 | 11.64 | 1.70 | 782.56 | 798.58 | 803.60 | 762.68 |
| 35 | Textiles (13) | 586.84 | +0.9 | 11.41 | 5.92 | 10.43 | 0.27 | 582.52 | 583.76 | 511.32 | 515.86 |
| 40 | OTHER GROUPS (103) | 1151.71 | -1.1 | 11.11 | 4.66 | 10.79 | 0.34 | 1164.72 | 1174.91 | 1186.03 | 1038.90 |
| 41 | Agencies (17) | 1539.89 | -1.5 | 6.01 | 2.42 | 18.00 | 0.05 | 1564.89 | 1583.72 | 1606.23 | 1243.54 |
| 42 | Chemicals (22) | 1154.57 | -1.1 | 13.13 | 5.58 | 8.98 | 0.57 | 1167.18 | 1179.92 | 1195.03 | 1186.59 |
| 43 | Conglomerates (13) | 1572.84 | -1.2 | 11.44 | 6.23 | 10.29 | 0.00 | 1591.51 | 1607.14 | 1622.32 | 1448.91 |
| 44 | Transport (13) | 2259.96 | +0.1 | 10.71 | 4.25 | 11.90 | 2.88 | 2257.30 | 2258.79 | 2258.58 | 2300.28 |
| 46 | Telephone Networks(2) | 1203.30 | -1.3 | 10.55 | 4.26 | 12.32 | 0.00 | 1219.66 | 1238.13 | 1257.61 | 1006.67 |
| 47 | Water(10) | 2050.12 | -0.3 | 17.08 | 6.61 | 6.52 | 0.00 | 2056.00 | 2071.00 | 2079.08 | 0.00 |
| 48 | Miscellaneous (26) | 1842.58 | -1.6 | 9.68 | 4.46 | 11.65 | 8.91 | 1872.67 | 1874.55 | 1881.10 | 1449.91 |
| 49 | INDUSTRIAL GROUP (483) | 1124.23 | -0.9 | 10.79 | 4.46 | 11.34 | 1.86 | 1134.06 | 1144.18 | 1156.60 | 1005.10 |
| 51 | Oil & Gas (17) | 2378.73 | -1.1 | 10.16 | 4.98 | 13.02 | 6.21 | 2404.11 | 2432.60 | 2458.52 | 1900.95 |
| 59 | 500 SHARE INDEX (500) | 1228.19 | -0.9 | 10.70 | 4.53 | 11.56 | 2.20 | 1239.27 | 1250.87 | 1264.48 | 1154.86 |
| 61 | FINANCIAL GROUP (114) | 815.69 | -0.4 | – | 5.28 | – | 0.99 | 819.16 | 821.31 | 830.11 | 746.31 |
| 62 | Banks (9) | 865.70 | ...... | 19.28 | 5.95 | 6.06 | 1.48 | 866.05 | 863.13 | 874.64 | 747.52 |
| 65 | Insurance (Life) (7) | 1334.82 | -0.3 | – | 4.98 | – | 0.00 | 1338.80 | 1351.96 | 1366.66 | 1033.83 |
| 66 | Insurance (Composite) (7) | 689.32 | -0.4 | – | 5.48 | – | 0.00 | 691.77 | 700.19 | 707.94 | 590.69 |
| 67 | Insurance (Brokers) (6) | 1108.88 | -0.3 | 6.66 | 5.69 | 19.98 | 0.00 | 1111.09 | 1115.18 | 1109.91 | 1011.90 |
| 68 | Merchant Banks (8) | 492.98 | -0.9 | – | 3.61 | – | 0.04 | 497.31 | 499.65 | 501.22 | 348.55 |
| 69 | Property (49) | 1139.93 | -0.8 | 8.00 | 3.81 | 15.80 | 1.30 | 1149.51 | 1149.45 | 1162.34 | 1301.48 |
| 70 | Other Financial (28) | 322.21 | -1.7 | 13.47 | 6.56 | 9.80 | 1.75 | 327.72 | 330.03 | 331.57 | 383.11 |
| 71 | Investment Trusts (68) | 1174.13 | -1.7 | – | 3.15 | – | 1.13 | 1194.31 | 1212.30 | 1220.23 | 1070.71 |
| 91 | Overseas Traders (5) | 1396.25 | -0.6 | 10.89 | 6.55 | 10.80 | 30.79 | 1404.57 | 1408.99 | 1423.65 | 1401.63 |
| 99 | ALL-SHARE INDEX (687) | 1127.78 | -0.8 | – | 4.42 | – | 2.04 | 1137.40 | 1147.05 | 1159.33 | 1055.94 |

| | Index No. | Day's Change | Day's High (a) | Day's Low (b) | Feb 20 | Feb 19 | Feb 16 | Feb 15 | Feb 14 | Year ago |
|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 SHARE INDEX‡ | 2259.7 | -17.3 | 2261.7 | 2246.0 | 2277.0 | 2297.1 | [illegible] | 2313.8 | 2298.3 | 2033.7 |

### FIXED INTEREST

| | PRICE INDICES | Wed Feb 21 | Day's change % | Tue Feb 20 | xd adj. today | xd adj. 1990 to date |
|---|---|---|---|---|---|---|
| | British Government | | | | | |
| 1 | Up to 5 years | 114.46 | +0.21 | 114.21 | – | 2.82 |
| 2 | 5-15 years | 122.35 | +0.32 | 122.12 | 0.16 | 2.34 |
| 3 | Over 15 years | 129.93 | +0.41 | 129.40 | – | 1.46 |
| 4 | Irredeemables | 147.59 | -0.16 | 147.83 | – | 0.00 |
| 5 | All stocks | 122.17 | +0.29 | 121.91 | 0.09 | 2.15 |
| | Index-Linked | | | | | |
| 6 | Up to 5 years | 139.52 | +0.27 | 139.15 | – | 0.94 |
| 7 | Over 5 years | 133.48 | +0.20 | 133.21 | – | 0.81 |
| 8 | All stocks | 133.82 | +0.20 | 133.55 | – | 0.82 |
| 9 | Debentures & Loans | 100.93 | -0.88 | 101.82 | – | 1.14 |
| 10 | Preference | 80.04 | ........ | 80.04 | – | 0.86 |

| | AVERAGE GROSS REDEMPTION YIELDS | | Wed Feb 21 | Tue Feb 20 | Year ago (approx.) |
|---|---|---|---|---|---|
| | British Government | | | | |
| 1 | Low | 5 years | 10.93 | 10.97 | 9.08 |
| 2 | Coupons | 15 years | 10.58 | 10.60 | 8.90 |
| 3 | | 25 years | 10.48 | 10.49 | 8.82 |
| 4 | Medium | 5 years | 12.12 | 12.19 | 10.42 |
| 5 | Coupons | 15 years | 10.98 | 11.03 | 9.41 |
| 6 | | 25 years | 10.61 | 10.64 | 8.97 |
| 7 | High | 5 years | 12.24 | 12.30 | 10.53 |
| 8 | Coupons | 15 years | 11.19 | 11.24 | 9.62 |
| 9 | | 25 years | 10.75 | 10.78 | 9.14 |
| 10 | Irredeemables† | | 10.53 | 10.51 | 8.75 |
| | Index-Linked | | | | |
| 11 | Inflation rate 5% | Up to 5yrs. | 4.57 | 4.66 | 3.41 |
| 12 | Inflation rate 5% | Over 5 yrs. | 4.02 | 4.04 | 3.53 |
| 13 | Inflation rate 10% | Up to 5 yrs. | 3.59 | 3.67 | 2.51 |
| 14 | Inflation rate 10% | Over 5 yrs. | 3.84 | 3.85 | 3.35 |
| 15 | Debs & | 5 years | 13.04 | 13.42 | 11.91 |
| 16 | Loans | 15 years | 12.89 | 12.76 | 11.38 |
| 17 | | 25 years | 12.89 | 12.75 | 10.70 |
| 18 | Preference† | | 11.53 | 11.53 | 10.04 |

‡Opening Index 2251.8; 10 am 2260.9; 11 am 2257.6; Noon 2250.8; 1 pm 2248.9; 2 pm 2246.0; 3 pm 2251.8; 3.30 pm 2258.6; 4 pm 2259.5 (a) 9.41am (b) 1.53pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

### RISES AND FALLS YESTERDAY

| | Rises | Falls | Same |
|---|---|---|---|
| British Funds | 89 | 4 | 5 |
| Corporations, Dominion and Foreign Bonds | 6 | 0 | 31 |
| Industrials | 126 | 853 | 617 |
| Financial and Properties | 36 | 423 | 237 |
| Oils | 7 | 50 | 35 |
| Plantations | [illegible] | [illegible] | [illegible] |
| Mines | [illegible] | [illegible] | [illegible] |
| Others | [illegible] | [illegible] | [illegible] |
| Totals | 323 | 1,526 | 1,086 |

### LONDON RECENT ISSUES

EQUITIES

| Issue Price p | Amount Paid up | Latest Renunc. Date | 1989/90 High | 1989/90 Low | Stock | Closing Price p | +or- | Net Div. | Times Covered | Gross Yield | P/E Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### FIXED INTEREST STOCKS

| Issue Price £ | Amount Paid up | Latest Renunc. Date | 1989/90 High | 1989/90 Low | Stock | Closing Price £ | +or- |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### RIGHTS OFFERS

| Issue Price p | Amount Paid up | Latest Renunc. Date | 1989/90 High | 1989/90 Low | Stock | Closing Price p | +or- |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### TRADITIONAL OPTIONS

● First Dealings Feb 19
● Last Dealings March 2
● Last Declarations June 14
● For settlement June 4

*For rate indications see end of London Share Service*

Calls in Ferranti Intl., Nobo, Inverk West, STC, Oliver Res., MBS, West Wedgwood. Puts in Blacks Leis., Bougainville. Put and call in British & Commonwealth.

### LONDON TRADED OPTIONS

TURNOVER WAS boosted to almost double recent levels yesterday by the expiry of February stock options, while a partial recovery in the London stockmarket after Tokyo's sharp fall led to a busy session in the FT-SE 100 index.

Total market volume stood at 48,700 contracts, compared with 27,084 on Tuesday. Yesterday's total was made up of 24,481 calls and 24,219 puts.

The bulk of the day's trades comprised the closing of expiring February positions. But one dealer said that apart from Hanson, there had not been any evidence of investors rolling their expiring positions forward.

The busiest contract was the FT-SE 100 index option, which traded 12,959 lots, of which 2,627 were calls and 10,332 were puts. The most widely traded series was the March 2,250 put, which accounted for 3,020 lots. The losses in Tokyo led to worries that world stockmarkets could come under pressure.

The early decline in London prompted investors to buy puts and sell calls. A popular contract was the March 2,250 put, which was actively purchased during the morning. Options dealers had one eye on the futures market, where the March FT-SE contract dipped to a 5 point discount below the cash index.

But the futures market changed direction during the afternoon, as fears of an early sharp decline on Wall Street proved unfounded. The futures moved to a 5-point premium over the cash index, which prompted selling of FT-SE calls. Among the stock options, Hanson was the most popular, trading 4,385 contracts, which was divided between 3,221 calls and 1,164 puts.

British Telecom was also boosted by the expiry of February options. A total of 2,382 contracts traded.

| Option | Calls | Puts |
|---|---|---|
| [illegible] | [illegible] | [illegible] |

## UK COMPANY NEWS

# Ricardo and SAC Intl propose £50m merger

By David Owen

RICARDO GROUP, the Sussex-based engines and transmissions designer, is to merge with SAC International in an all-share transaction that values the Bristol-based engineering services group at £23.9m.

The deal will create the UK's largest engineering design company. In all, the combined group will have a turnover of more than £60m, market capitalisation of about £50m and will employ some 1,800 engineers.

The groups explained the move in terms of a response to the continuing rationalisation of manufacturers into groups covering a range of product areas and operating on a worldwide footing.

"The key to growth and success in the 1990s will be the ability to provide a complete range of engineering solutions and services to clients over the entire scope of their operations on a global basis", they said.

Ricardo – which last year fought off a £23m takeover bid from First Technology, the car sensors and safety equipment group – specialises in petrol and diesel engines and related components.

SAC, which made pre-tax profits of £3.07m on turnover of £44.3m in the year to August 31, 1989 provides engineering and technological services to the aerospace, nuclear, defence, power generation and process engineering industries.

Under the terms of the transaction, Ricardo is offering 82 new ordinary shares for every 100 shares of SAC. Based on Tuesday's 143p Ricardo closing price, this is equivalent to 117.3p per SAC share.

Irrevocable undertakings to accept the offer have already been received in respect of 45.9 per cent of SAC shares. In addition, Framlington Group has indicated that it intends to accept in respect of client holdings totalling a further 10.7 per cent, Ricardo said.

Assuming full acceptance, existing SAC shareholders will hold some 53.4 per cent of Ricardo's enlarged issued share capital. The merged group will, in due course, be renamed SAC-Ricardo.

Ricardo also chose yesterday to unveil a 34 per cent improvement in pre-tax profits for the six months to December 31.

In the latest period, the group reported profits of £1.49m on £9.05m of turnover, against £1.11m on turnover of £7.1m in 1988.

Earnings per share were 7.25p (5.5p). The interim dividend is being raised to 1.9p (1.35p).

In yesterday's trading, Ricardo shares were down 3p at 140p. SAC fell 4p to 113p.

# Lasmo to sell North Sea pack of interests

By Steven Butler

LASMO, the independent oil company, has put up for sale a package of North Sea assets that include interests in 22 licence blocks.

Mr Joe Darby, executive chairman, described the sale as a "tidying-up exercise", after last year's acquisition of Thomson North Sea. The sale includes interests in the Audrey gas field, currently producing, as well as interests in the "J-block", operated by Phillips, which is likely to be developed.

The package of assets was thought to be worth between $60m and $80m (£35m-£46.6m).

Mr Martin Lovegrove, of James Capel, which is handling the sale, described the assets as a "starter pack".

"It is mainly of interest to companies starting up or trying to reach critical mass in the North Sea," he said.

This year Lasmo is planning to spend £25m on 30 exploration and appraisal wells, and £100m on developments at the Piper, Saltire and T-block fields.

The assets sale is part of a trend in which oil companies acquiring large packages of North Sea assets have sold off assets thought not to be critical to company strategy. Most sales, however, have been much larger than the Lasmo offering, which is likely to attract the interest of smaller oil companies.

# CRT in £2.5m recruitment acquisition

CRT Group, formerly R Smallshaw (Knitwear), has conditionally agreed to acquire Software Personnel, a computer recruitment business.

The maximum initial consideration is £2.5m. This will be satisfied by up to £434,969 in cash and £558,750 in loan notes, with the balance in new ordinary shares at 66p.

A deferred payment of up to £2.75m is also payable in 1994 if pre-tax profits exceed certain targets.

CRT's directors said the acquisition represented the company's first step in fulfilling its strategy of expanding in the fields of consultancy, recruitment and training.

Following the purchase it would be possible to expand Software Personnel's business both geographically and by further acquisitions, they said.



# Young Group spends £2.4m in Australia

By Clare Pearson

YOUNG GROUP, the USM-quoted private coal producer based in County Durham, yesterday announced it had agreed to buy from a number of private Australian companies a 42.9 per cent stake in Australian Mining Investments, a publicly-quoted company, for A$5.5m (£2.4m).

The purchase is to be financed chiefly by a £2m placing of ordinary shares at 170p underwritten by IEP Securities, part of Sir Ron Brierley's group of companies and Young's 17.7 per cent shareholder.

Mr Robert Young, chairman, said the purchase was part of a plan to provide mining interests abroad "at a time of uncertainty for private coal producers in Britain", where the market continued to be dominated by British Coal and the electricity supply industry.

The principal operations of Australian Mining Investments are underground but it has an opencast operation in New South Wales.

The company, hit by weak international prices and an unfavourable exchange rate, made operating losses of A$3.79m in the year to end-June 1988.

But it returned to profits in the second six months and paid a dividend of 1.5 cents. Principal Australian exporters have since announced a 5 per cent increase in prices for contracted sales to Japanese customers, effective from April 1.

Under the terms of the placing, IEP's holding in Young will be increased to a minimum of 21.3 per cent and a maximum of 26.9 per cent.

Mr Young recently hit out at the "unfair treatment" of private coal producers under an agreement between British coal and the electricity suppliers in the run up to the latter's privatisation. He said that following the conclusion of these arrangements the electricity supply industry had been reluctant to negotiate on the same terms with private operators.

## SHARE STAKES

Cardiff Property: JR Wollenberg, director, bought 1,000 ordinary at 388p each; holding now 144,000 (5.58 per cent). Barclays Bank acquired 50,000 taking stake to 270,000 (10.46 per cent).

Danbury Group: Barry Hersh acquired 350,000 shares through exercise of option at 80p each; total holding 329,290 (8.15 per cent). Michael Carr sold 380,000 (3.73 per cent).

Hawtin: Chauffeurplan is interested in 3m ordinary shares. Chauffeurplan is controlled by family of David Marshall, who also owns 31,000 and combined stake is some 5.05 per cent.

Leigh Interests: Mang Finanz has 1.84m shares (5.12 per cent).

# Tate to build polydextrose plant in Toronto

By Clay Harris

Tate & Lyle, the sweeteners group, is to build its first plant for the production of polydextrose, a low-calorie bulking agent used in frozen desserts, sauces and toppings.

The facility – only the second in the world to make polydextrose – will be located in Toronto. Initially, the main markets will be Pacific Rim countries and Europe.

Staley, Tate's corn sweetener and starch subsidiary, cannot sell polydextrose to US food manufacturers until 1992, when the key patent held by Pfizer, the US drugs and chemicals group, expires.

Polydextrose, produced from dextrose, sorbitol and citric acid, contains about one calorie per gramme, against four for sugar. Several thousand tonnes will be made at the Toronto plant, which is expected to come on stream by the end of 1990. Staley plans to build a US plant in 1992 and to follow it shortly afterwards with one in Europe.

# Royal Dutch/Shell rises 17% to £892m in fourth quarter

By David Thomas, Resources Editor

HIGHER OIL prices underpinned the 17 per cent jump to £892m reported yesterday in the Royal Dutch/Shell group's fourth quarter post-tax earnings on a current cost basis.

For 1989 as a whole, earnings rose by 13 per cent to £3.58bn and the return on capital employed increased from 11.5 per cent to 13.7 per cent.

The advance was even more pronounced on a historic cost basis, which includes gains in stock values: fourth quarter net earnings increased 45 per cent to £1.02bn, while full-year earnings advanced 34 per cent to £3.95bn.

The results were generally at the top end of analysts' expectations, but Shell's share price in London moved down with the market by 4p to 470p.

Shell Transport & Trading increased its payments for the full year by 8.2 per cent to 18.4p with a proposed final dividend of 10.7p. Royal Dutch Petroleum lifted its total for the year 7.7 per cent to Fl 7.65, with a Fl 4.4 final.

Earnings per share were 44p (32.4p) for Shell and Fl 15.98 (Fl 12.35) for Royal Dutch over the year.

Sir Peter Holmes, chairman of Shell Transport & Trading, stressed his determination to maintain the group's momentum: "Our return on capital was 13.7 per cent this year. It's got to get higher than that. In the era of high interest rates, it's not a particularly spectacular return."

Sales for the year increased 16 per cent to £64.78bn. Shell's full-year results were boosted by £167m gains (£204m losses) from property sales and tax credits and also by £11m currency gains (£132m losses).

Full-year earnings from exploration and production rose to £1.22bn (£1.07bn). Shell predicted a continuing increase in crude production.

Sir Peter pointed to the potential of Shell's gas business, where sales increased by 6 per cent: "Gas is quite the growth area of the future partly because of environmental pressures. Only 13 per cent of all gas produced crosses frontiers. We are the biggest gas company in the world."

Earnings from manufacturing, marine and marketing advanced to £1.42bn (£1.12bn), although this fell back on a current cost basis to £1.05bn (£1.33bn).

Shell stressed the prospect for increasing sales in unleaded gasolines, where it claims to be the world leader.

Sir Peter: Gas is quite the growth area partly because of environmental pressures. We are the biggest gas company in the world

Chemicals earnings declined to £971m (£1.018bn). Higher feedstock and taxation rates outside the US were among the explanations: "We don't expect to see £1bn (of profits) every year from the chemicals division," Sir Peter said.

Shell's coal earnings benefited from firmer prices for internationally traded steam coal, advancing to £76m (£40m). Metals earnings also increased – to £168m (£109m), thanks mainly to Shell's aluminium and gold interests.

See Lex

# Texas Homecare agrees deal with Retail Corp

By Maggie Urry

TEXAS HOMECARE, the do-it-yourself chain owned by Ladbroke, the leisure group, has agreed that the Retail Corporation, which operates Gardenstore, the garden centre chain, will run the garden centres in 12 of the Texas shops.

If the deal proves a success Gardenstore could take on more of the Texas garden centres.

Texas, which has 215 superstores of which more than 150 have a garden centre, said the deal would aid the marketing and branding of its garden centres.

Texas and Retail Corporation will run them on a joint venture basis sharing the turnover. The first store will be converted by Easter.

Gardenstore, which opened its first store in March 1989, now has 13 stores and claims to be the second largest in the £2bn a year gardening retail market.

It plans to have 18 outlets by Easter, the crucial start to the summer season. The Texas Gardenstores will be much smaller than the usual Gardenstore sites.

Retail Corporation was founded by Mr Malcolm Parkinson and Mr John Kennedy, each from B&Q, the DIY chain owned by Kingfisher. It has backing from Globe, Ensign Trust and 3i.

# Mcleod Russel stake sold

By Vanessa Houlder

MCLEOD RUSSEL Holdings, the investment holding company, yesterday announced that the Guthrie family, who were long-standing shareholders, had sold their 43.8 per cent stake in the business and that Mr John Guthrie had resigned as a non-executive director.

In the past two years, the company has moved sharply away from overseas plantations towards UK-based businesses such as surface coatings and wood finishings.

The 19.8m shares were placed with institutions by Warburg Securities at 115p per share. Mcleod Russel's share price fell from 132p to 128p.

## DIVIDENDS ANNOUNCED

| | Current payment | Date of payment | Corres - ponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|
| Ardagh ........int | 1.25♦ | Apr 12 | 1 | - | 4 |
| Arcliffe Hldgs ........fin | 4.5 | - | 4 | 6.75 | 6 |
| BCE Holdings § ........int | nil | - | 0.4 | - | 0.4 |
| Havelock Europa ........int | nil | - | 2.6 | - | 3.6 |
| Paragon Comms ........int | 3♦ | - | 2.2 | 4.4 | 3.3 |
| Provident Fin ........fin | 13.5 | Apr 26 | 12 | 20.5 | 18 |
| Ricardo Group ........int | 1.9 | - | 1.35 | - | 5 |
| Royal Dutch ........fin | 4.4‡ | - | 4.1 | 7.65 | 7.1 |
| Second Market In........fin | 0.33 | - | 0.53 | 0.33 | 0.33 |
| Shell Trans........fin | 10.7 | - | 9.83 | 18.4 | 17 |
| Taveners ........fin | 1.5 | - | 1.25 | 1.5 | 1.25 |
| Yorks Chemicals ........fin | 8.5 | Apr 12 | 7 | 12 | 10 |

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ♣Irish currency throughout. ‡Dutch currency throughout. ♦Second interim in lieu of final

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interim- Sinclair Goldsmith Holdings.

Finals- English & Overseas Properties, Imperial Chemical Industries, Lancashire & London Investment Trust, Midland Bank, North American Gas Investment Trust, Record Holdings, St. David's Investment Trust, Vantage Securities.

FUTURE DATES

Interim-

| | |
|---|---|
| Alpha Estates ........ | Feb. 28 |

Finals-

| | |
|---|---|
| AMS Industries ........ | Feb. 28 |
| Baltic ........ | Feb. 27 |
| Clinton Cards ........ | Mar. 6 |
| Delta ........ | Mar. 15 |
| MTL Instruments ........ | Mar. 9 |
| Morrison (Wm) Supermkts........ | Mar. 22 |
| Tozer Kemsley & Millbourn........ | Feb. 28 |





# Court allows insolvent Sock Shop to appoint administrators

By Maggie Urry

SOCK SHOP International, the hosiery retailer, was yesterday granted permission by the Companies Court to appoint administrators under provisions of the Insolvency Act.

It was revealed in the Court, a division of the High Court, that Sock Shop was insolvent.

Neither Ms Sophie Mirman, chairman and joint managing director, nor her husband Mr Richard Ross, joint managing director, attended the court hearing. Their 82 per cent shareholding is expected to be heavily diluted by the proposed refinancing.

The administrators, Mr Peter DuBuisson and Mr Phillip Sykes, partners of BDO Binder Hamlyn, the accountants, will in effect run the company while it seeks fresh capital to help reduce its borrowings and bolster its balance sheet. It must also come to an agreement with its creditors.

In affidavits and a report made to the court as part of the application, the company's financial problems were made clear. In the report, Mr DuBuisson said that there was a real prospect of survival and "despite the current problems, the concept behind the Sock Shop business is good and could be viable with effective management controls and reduced borrowing".

The court accepted the plea that Sock Shop could survive as a going concern, if administrators were appointed to give a "breathing space". Mr Justice Warner, the judge who heard the group's petition, concluded the hearing by saying, "I hope it comes off."

Sophie Mirman: she did not attend the court hearing

Mr Ross said in an affidavit that at the end of January Sock Shop had assets of £17.9m and liabilities of £19.4m, of which £14.6m was an overdraft. Mr Ross said, "as the company's revenue is not currently sufficient to meet current liabilities, it is no longer possible for the company to continue trading."

He said that on February 16 Barclays, Sock Shop's bankers, had said it would not let the group's borrowings rise any further and froze its loan facilities.

Parts of a report written by Mr DuBuisson on Sock Shop's financial situation were made public, although commercially sensitive information was kept secret so as not to impair prospects of finding backers prepared to put new funds into the group.

Mr DuBuisson, who was called in in mid-December by Barclays, said the group's rapid expansion had "been financed largely by bank borrowings". He added: "The group was undercapitalised at the end of its last accounting period [ended February 28 1989] and remains so." By the February 1990 year-end the group would have negative net assets, he said.

The report said that after the warm winter of 1988-89 the company had been overstocked by £1.4m and had been forced to cut prices to reduce stock levels. This had hit profit margins.

Then the hot summer last year and the public transport strikes affected sales, the latter by an estimated £1.4m. More mark-downs of stock followed. The autumn continued warm and only in two weeks of the first four months of the group's second half were like-for-like sales higher than the year before.

The report also said the shops in continental Europe had "suffered from a lack of management input" but that an area manager had now been appointed.

Sock Shop has already revealed a loss of nearly £4m in the half-year to end-August, and closed down its 17 US stores, warning of a £4.8m write-off as a result.

The group's shares, quoted on the USM, were suspended on Tuesday at 34p, valuing the company at £7.5m. The shares are to remain suspended until the company's financial position is clarified.

## UK COMPANY NEWS

# Shandwick bids £9m for Paragon

**By Clare Pearson**

The latest development on the changing UK public relations scene is an agreed takeover offer by Shandwick, the acquisitive international public relations group, for its much smaller UK counterpart, Paragon Communications.

Paragon's shares leapt 30p to 158p on the news of the shares offer. At Shandwick's closing price yesterday of 132p, down 6p, this valued each Paragon share at 165p and the whole company at about £9.32m.

Directors speaking for 41.2 per cent of Paragon are accepting the share offer and irrevocable undertakings to accept have also been obtained in respect of a further 11.1 per cent.

The share offer is on a five-for-four basis; there will also be a partial cash alternative of 162.5p per share and a partial loan note alternative.

Paragon also yesterday annouced results for the year to end December: Pre-tax profits were up 36 per cent at £1.33m on sales of £12.34m (£8.49m). A second interim dividend of 3p is proposed, following the earlier 1.4p payment.

Paragon, which floated at 80p per share in December 1987, has six UK operations, three of which are in London, serving nearly 150 client accounts.

The bulk of its business is in consumer, corporate and business-to-business PR. It has a small financial operation which last year increased its profits contribution to about £35,000. Earnings per share last year were 15.5p (11.3p)

UK-based Shandwick ranks among the biggest PR agencies in the world with 100 offices in 18 countries. The attractions of Paragon to it are two-fold.

First, Paragon's regional offices in Manchester, Leeds and Bristol will supplement Shandwick's own in Birmingham, Manchester and Scotland.

Second, it intends to develop hte Paragon name as a second string in its international development. Mr Hingston will continue as chief executive.

Shandwick reported pre-tax profits of £14.8m, up from £8.81m, in the year to end-July 1989.

More recently, however, it has shifted its focus to the UK and Europe. Last November, it announced agreement to buy Nationwide Public Relations, the holding company of PR Consultants (Scotland). Last month it said it was making two two further moves into Europe: the purchases of a Hamburg-based PR business for a maximum of £3m, and of an Italian public affairs consultancy for a maximum of £3.84m.

### RECENT MOVES IN THE UK PUBLIC RELATIONS SECTOR

**February 1990**

■ VPI, the financial and corporate communications group, issues profits warning on first half after last month announcing pre-tax profits down from £14.1m to £6.5m in the year to end-September. Cites poor US conditions.

■ Boulet Dru Dupuy Petit, the French advertising agency, pays 42.5p per share for 29.9 per cent of Broad Street, the USM-quoted group with a financial PR bias. Mr James Gulliver steps down as Broad Street's chairman.

**January 1990**

■ Streets, the financial PR subsidiary of Addison Consultancy, sold for £1m to Thomas Kleyn International, the largest Dutch corporate communications group. The management buy-out at Streets fell through last year.

John Gummer, chairman of Shandwick

**September 1989**

■ Charles Barker (now BNB Resources), the agency group, sells its public relations businesses for £9m to Corporate Communications, which owns City & Commercial, the financial PR company.

■ Management buys, for £7.6m, the public relations business of Lowe Howard-Spink & Bell, the advertising company now known as Lowe Group. Mr Tim Bell becomes the biggest shareholder in the new company, Lowe Bell Communications.

**May 1989**

■ Shareholders in Extel, the PR and marketing group, back a refinancing plan rather than the hostile consortium bid from City & Westminster Financial, the investment group, Broad Street, and Summer International, the training and education group.

**February 1989**

■ Shandwick makes the biggest move into US with the purchase of Chicago-based Golin/Harris Communications PR from Foote Cone & Belding, the US advertising group.

# Butler Cox expands into IT education with institute buy

**By Alan Cane**

CRANFIELD INFORMATION Technology Institute has been acquired by Butler Cox, the management consultancy, in a deal which opens new horizons in British management education.

CITI is an educational establishment set up four years ago by Cranfield Institute of Technology with the backing of a group of major UK companies.

Butler Cox is paying an initial £75,000 in cash together with a further sum not exceeding £900,000 through a formula based on CITI's after-tax profits for the next two years. Butler Cox will acquire CITI's name, its complement of 20 professionals and support staff, its course materials and equipment and the leasehold of the institute's Milton Keynes premises, the work in progress and the order book.

It is Butler Cox' first acquisition since its full stock market listing in May last year. It says it will pay the initial consideration, the future working capital requirements of CITI – which are likely to come to £300,000 in the first year – and any further consideration out of its existing cash resources.

Cranfield Institute of Technology is the UK's principal post-graduate technological university. CITI was established in 1986 on the initiative of the then vice-chancellor, Lord Chilver, who raised some £2.1m from companies including British Gas, British Telecom and British Petroleum.

Lord Chilver's idea was to establish an institute to provide high quality information technology (IT) education, drawing on the best of both the academic and industrial worlds. Failure to make the best possible use of IT is seen as a major weakness in the management of most companies in the UK and elsewhere.

CITI was set up as a commercial company; Dr Allan Fox, its principal and managing director, had been involved in computing research and development – including a spell at the Royal Signals and Radar Establishment, Malvern – for more than 20 years before taking up the Cranfield post.

Last year CITI ran about 10 three-day courses each month with an average of 20 people on each, and was close to breaking even commercially.

However, its management team decided, that if it was to fulfil its potential and, in particular, break into international markets, it would have to become part of a larger, commercial group.

Butler Cox, which by reputation is one of Europe's best known IT consultancies, was its first choice, according to Dr Fox.

Butler Cox operates three principal business activities – conventional IT consultancy, and two syndicated research services, the Butler Cox Foundation and the Productivity Enhancement Programme (PEP).

It reported pre-tax profits of £634,000 on sales of £4.2m for the six months to the end of September.

The Foundation Programme, its most important research activity, has more than 400 corporate members, two thirds of them outside the UK.

Mr George Cox, managing director of Butler Cox, said this week that the company had been looking for a way into IT education and the acquisition of CITI had been a perfect opportunity.

CITI will retain its name and its Milton Keynes premises; a forum of representatives from the original shareholder organisations will meet under the chairmanship of Professor Frank Hartley, Cranfield's vice chancellor, to set the direction for the institute.

It will continue to award master's and doctor's degrees validated by Cranfield Institute.

# BCE £1.16m midway loss

BCE Holdings, a manufacturer of snooker and pool equipment, ran up a loss of £1.16m pre-tax for the six months ended September 30 and is passing the interim dividend – 0.4p was paid previously.

The USM company returned profits of £93,000 for the opening half of the previous year but fell £448,000 into the red in the second six months. The final dividend was omitted.

The directors blamed the poor results on a continued decline for billiard and pool products throughout the world, continuing pressure on margins, increased interest rates in the UK and losses in the company's overseas offshoots.

First half turnover declined from £5.06m to £4.90m.

# Ardagh profits expand by 41% to near I£2m

TAXABLE profits at Ardagh, the Dublin-based company which has just changed its name from Irish Glass, increased 41 per cent from I£1.37m to I£1.93m, or £1.78m sterling, in the 26 weeks to December 26.

Turnover, said Mr Ian Morrison, chairman, was ahead of budget and 12 per cent up on last time – from I£15.08m to I£16.84m. This was a reflection of the fine weather of the summer. However he added that the inherent loss of production during a furnace rebuild in January, and other cost factors, indicated that it was unlikely that the profit for the year would increase at the same rate as for the first half.

Earnings worked through at 9.02p (6.08p) per share and the interim dividend is lifted 25 per cent to 1.25p.

The company changed its name in advance of its planned expansion by acquisition into areas other than glass containers. The company has expertise in the engineering sector and is also looking at the packaging and printing sector.

Mr Morrison said that, although several opportunities had been examined, progress had been slower than expected – there had been some difficulty finding a compatible business which fitted with Ardagh's investment criteria.

# Arncliffe ahead by 24%

Arncliffe Holdings, the Leeds-based property developer and building contractor, continued to progress through the second six months of 1989 and for the full year raised its taxable profits by 24 per cent to £3.14m.

Turnover rose from £12.93m to £19.43m and earnings emerged at 40p (38.8p) after a higher tax charge of £1.14m (£540,000). A final dividend of 4.5p makes a 6.75p (6p) total.

The directors said that despite difficulties in the housing market the company was experiencing a reasonably strong demand for residential properties while demand for commercial properties remained good.

## NEWS DIGEST

# Taveners recovers to £287,000

TAVENERS, the Liverpool-based confectioner, showed a recovery last year with pre-tax profits rising to £287,000 in the year to December 31 compared with £212,000 in the preceding year and £279,000 for 1987 despite a virtual standstill in turnover at £10.61m (£10.67m).

Mr WH Tavener, the chairman, said that because of the long hot summer, UK sales volume was 7 per cent lower, but equalled the previous year's value because of a move to higher valued products.

After tax of £15,000 (£12,000) earnings per share emerged at 9.41p (6.91p). The dividend goes up from 1.25p to 1.5p.

## Bank Leumi UK shows sharp rise

Bank Leumi UK, the London subsidiary of the Leumi Group of Israel, reported a sharp rise in profits in the year ending December 31. The bank does not reveal pre-tax profits, but disclosed consolidated profits rose to £4m, against £2.6m in 1988.

Total assets were up from £373.5m to £405.2m, while shareholders funds increased from £20.1m to £25.1m. A final dividend of 10.5p (9.4p) was declared.

## Scottish Eastern net assets up 11.4%

The Scottish Eastern Investment Trust has proposed a 2-for-1 scrip issue to further increase the attraction of shares to smaller holders.

Net asset value of the shares increased by 11.4 per cent, from 185.8p to 206.9p at the year ended January 31 1990.

Gross revenue rose from £16.33m to £18.31m and after tax of £3.13m (£2.62m), earnings came out at 3.65p (3.15p).

The recommended final dividend of 2.35p makes a total for the year of 3.5p (3p).

## Property Company falls into the red

Property Company of London incurred a pre-tax loss of £816,000 in the first half of 1989. That compared with profits of £10,000 for the comparable period of the previous year.

However, after taking account of a profit of £2.93m arising from the disposal of nursing homes previously disclosed as extraordinary and now reclassified, pre-tax profits for the 12 months to end-December worked through at £2.15m.

The USM company, with interests in leisure, the environment and care for the aged, is paying a second interim dividend of 1.5p making 2p to date – for the year to December 31 1988 shareholders received a total payment of 2.75p.

## Tuskar Resources suffers I£4m loss

Tuskar Resources, the Dublin-based oil and gas explorer, incurred a pre-tax loss of I£4.09m (£3.79m) for the six months ended September 30 1989 after writing off I£3.98m of exploration expenditure previously deferred.

Tuskar is a USM company but the directors announced in December that they would be seeking a full listing for the shares.



## PUBLIC WORKS LOAN BOARD RATES

Effective February 20

| Years | Quota loans repaid* by EIP† | Quota loans repaid* Ann†† | Quota loans repaid* at maturity§ | Non-quota loans A* repaid by EIP† | Non-quota loans A* repaid Ann†† | Non-quota loans A* repaid at maturity§ |
|---|---|---|---|---|---|---|
| 1 | | | 14⅜ | | | 15⅛ |
| Over 1 up to 2 | 14⅛ | 14⅛ | 13½ | 15⅛ | 15⅛ | 14¼ |
| Over 2 up to 3 | 13¾ | 13⅝ | 12⅞ | 14¾ | 14⅝ | 13⅝ |
| Over 3 up to 4 | 13¼ | 13⅛ | 12⅝ | 14¼ | 14⅛ | 13⅜ |
| Over 4 up to 5 | 13 | 12⅞ | 12⅜ | 14 | 13⅞ | 13⅛ |
| Over 5 up to 6 | 12¾ | 12¾ | 12⅜ | 13¼ | 13⅛ | 12⅞ |
| Over 6 up to 7 | 12⅝ | 12½ | 12¼ | 13⅛ | 13 | 12¾ |
| Over 7 up to 8 | 12½ | 12½ | 12 | 13 | 12⅞ | 12½ |
| Over 8 up to 9 | 12½ | 12⅜ | 11⅞ | 13 | 12⅞ | 12⅜ |
| Over 9 up to 10 | 12⅜ | 12¼ | 11⅝ | 12⅞ | 12¾ | 12⅛ |
| Over 10 up to 15 | 12⅛ | 11¾ | 11¼ | 12⅝ | 12¼ | 11¾ |
| Over 15 up to 25 | 11⅝ | 11⅛ | 11 | 11⅞ | 11⅝ | 11½ |
| Over 25 | 11⅛ | 11 | 10⅞ | 11⅝ | 11½ | 11⅜ |

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

## UK COMPANY NEWS

# Trencherwood tumbles to £8.7m

By Vanessa Houlder

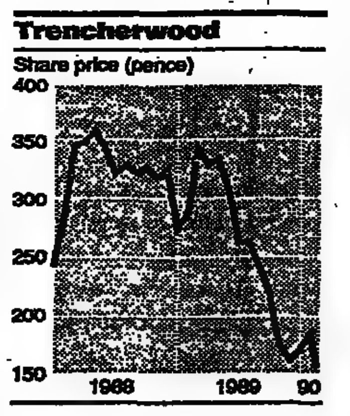
TRENCHERWOOD, the USM quoted property developer, yesterday blamed the worst housing market since 1974 for a fall in pre-tax profits from £13.21m to £8.73m for the year to October 31.

The profits, which were scored on a turnover of £63.03m (£51.54m), were taken after an exceptional write-off of £4m reflecting a fall in land values.

Looking ahead, the company warned that it was unlikely to exceed 1988-89's housing profits of £1.7m (£10.3m) in the current year. Following the recent rise in mortgage rates, the short term prospect for housing was still one of "caution and uncertainty".

For the 1988-89 year net margins halved from 26 per cent to 13 per cent, due principally to the drop in sale prices and the increase in interest charges.

Mr Brian Eighteen, managing director, said that sale prices fell by 15 per cent since mid-1988, when double mortgage relief was abolished and interest rates began to rise steeply.




Interest payable increased from £1.11m to £4.39m. At year-end gearing stood at 61 per cent, up from 50 per cent the previous year. That followed an £8.2m land sale of 106 units and helped offset the shortfall in budgeted sales and the write-down of land.

Sales in 1989 reached 401 units which compared with a 1988 total of 529 and budgeted sales of 675 units. Some 43 per cent of sales were to the first-time buyers market.

Trencherwood said it had closed its offices in the southern region and made administrative savings of £600,000.

Profits from commercial interests more than doubled to £5.6m. The majority of the office space under construction was in negotiation for letting and sale.

Net assets per share were £1.92. Earnings fell from 37.04p to 23.12p. A final dividend of 3.63p (3.82p) makes an unchanged 5.13p total.

**COMMENT**

The dismal nature of these results, vigorously underscored by the write-down of land values, sent the shares tumbling 9 per cent to 155p, which is less than half their value a year ago. But it is not entirely clear that the shares have yet hit rock bottom; sentiment may well get worse before it gets better. January's recovery in the housing market is likely to be snuffed out by the latest round of mortgage increases and the dwindling confidence in the commercial property market could sabotage some of this year's deals. That said, Trencherwood is in reasonable shape to weather the storm. It has cut costs, taken tight control of work in progress and aims to reduce its gearing to 45 per cent. And when interest rates do come down, Trencherwood should be in a strong position to exploit its major land holdings in the M4 corridor. Assuming it makes pre-tax profits of £8m the shares are on a p/e of 10 and a discount to assets of 19 per cent.

# Farmers attacks disposal proposal

By Nikki Tait in Los Angeles

FARMERS GROUP, the US insurance subsidiary of BAT Industries, has attacked the plans of Sir James Goldsmith's Hoylake consortium to sell it to Axa-Midi Assurances of France as "extremely adverse" for policyholders.

Axa wants to buy Farmers from Hoylake for $4.5bn if Hoylake makes a successful bid for BAT.

However, Hoylake cannot launch a new offer for the tobacco-based conglomerate until insurance departments in nine separate states have approved Axa as a suitable potential owner of Farmers.

Los Angeles-based Farmers started presenting its case for the first time to officials from the Californian insurance department on Tuesday.

Mr Charles Shultz, senior vice president of finance, criticised sharply Axa's funding plans for the acquisition – which involved a $2.25bn ten-year term loan with the remaining money coming from the issue of two to three year loan notes – and certain tax implications of the deal.

*Significant changes which* Axa plans to make to Farmers' investment portfolio in the light of the revised tax situation were, he claimed, imprudent.

Mr Shultz went on to assert that there would be no synergies or economies of scale resulting from Axa's potential ownership.

Asked by Department of Insurance officials how the potential Axa acquisition might differ from BAT's bid *for Farmers* in 1988 – which Farmers initially contested but eventually agreed to – Mr Shultz said that there was previously no requirement that any acquisition debt be placed on Farmers.

The UK conglomerate had also offered to maintain Farmers' current tax structure which brings benefits to the reciprocal insurance exchanges which Farmers manages. "It was a large organisation which had studied the matter for months," he commented.

Earlier, Mr Shultz asked what the benefit of BAT's ownership had been and suggested that the conglomerate's ownership had brought a more *disciplined approach to corporate planning.*

Mr Shultz was followed by Farmer's second witness, Mr John Gardiner, managing director of Insurance Insolvency International of the UK.

Mr Gardiner also emphasised the scale of the acquisition relative to Axa's current size, claiming that the French management would be "at full stretch" if it was allowed to proceed with the deal.

# Traditional core activities lift Provident 12.6% to £31.7m

By David Barchard

PROVIDENT FINANCIAL GROUP, the Bradford-based consumer finance lender, yesterday announced an increase in pre-tax profits of 12.6 per cent in 1989.

Profits for the year to December 31 were £31.7m up from £28.15m a year earlier. There was an extraordinary profit after taxation of £13.69m from the sale of Whitegates, the estate agency chain, which Provident sold to Legal & General last autumn.

During the year a property revaluation revealed a surplus over book value of £7.7m. The net asset value of the Group rise by 38 per cent during the year to £118m.

Pre-tax profits from personal finance were up from £25.4m to £29.7m, with turnover up from £176.9m to £228.2m, while insurance contributed £9.3m to profits (1988: £6.8m) with turnover up from £41m to £48.8m.

However turnover of other activities was down from £13.3m a year ago to £9.2m, though Mentor Interactive Training cut its losses from £1.2m a year ago to £0.1m, with turnover growth up 35 per cent and increased productivity.

Earnings per share rose from 37.19p to 42.76p and a final dividend of 13.5p was proposed (1988: 12.0p) bringing the total dividend for the year to 20.5p from 18.0p a year ago.

**COMMENT**

Fears that profits from the group would be £30m or lower this year have not been born out. Provident Financial's customer base is relatively sheltered from the impact of high interest rates, so it is perhaps not surprising that the group has fallen back on its traditional core activities, despite several years talk of diversification. The important point is surely that, mature or not, the core business has continued to grow with pleasing steadiness over the past twelve months. With its personal finance operations neatly regrouped into three businesses as opposed to the previous ten, Provident Financial has focused on the task of digesting the credit retailing acquisitions it made last year. The insurance subsidiaries also seem to be growing, though rapid expansion of its high street outlets last year dented the profits of Colonnade Insurance.

# Havelock Europa making a strong profit recovery

HAVELOCK EUROPA, the store design and shopfitting group, returned pre-tax profits of £127,000 for the six months ended October 30 1989.

The company reported profits of £1.39m for the opening half of the previous year, but plunged £1.34m into the red in the second six months of the 1988-89 year.

The directors said the first half result was encouraging when compared with the last full year profit figure of £52,000, down from 1987-88's £4m.

Activity at the three large plants continued to be strong and trading profit was described as "reasonable". The group has changed its year-end and the preliminary results will cover an eight-month period to end-December 1989.

Mr Lewis Robertson, chairman, said he was looking for a strong recovery in 1990.

There is no interim dividend – shareholders received 2.6p last time.

Turnover advanced to £25.8m (£21.35m). Interest charges accounted for £471,000 (£114,000) but tax was reduced from £486,000 to £44,000.

Earnings emerged at 0.5p (6.5p).

# Stratagem extends its hostile bid for Colonnade

By Andrew Bolger

STRATAGEM Group, the investment company, yesterday extended until Friday, March 9, its hostile 163p per share cash bid for Colonnade Development Capital, the small investment company.

Colonnade has rejected the £8.24m offer as inadequate and said it was in talks with a number of parties which might lead to an offer appreciably in excess of Stratagem's offer.

Mr Bernard Kerrison, chairman of Stratagem, said his company now owned or had acceptances for the offer in respect of 51 per cent of Colonnade's shares.

However, the Stock Exchange's committee on quotations has decided that Stratagem should not exercise voting rights in respect of 23 per cent of the equity until the purchase of such shares has been approved by Stratagem shareholders. Accordingly the Takeover Panel has decided that these shares should not be counted towards the offer acceptance condition until the voting restriction has been lifted.

An extraordinary general meeting of Stratagem shareholders will be held on Monday, March 5, to approve the purchase of the Colonnade shares. Mr Kerrison said that irrevocable commitments to support the purchase had been received from shareholders representing more than 60 per cent of Stratagem's share capital.

## UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY– Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales volume (1985=100); retail sales value (1985=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

| | Indl. prod. | Mfg. output | Eng. order | Retail vol. | Retail value* | Unem-ployed | Vacs. |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

OUTPUT– By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

| | Consumer goods | Invest. goods | Intmd. goods | Eng. output | Metal mnfg. | Textile etc. | Housg. starts* |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

EXTERNAL TRADE– Indices of export and import volume (1985=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

| | Export volume | Import volume | Visible balance | Current balance | Oil balance | Terms trade | Reserves |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

FINANCIAL– Money supply M0, M2 and M4 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit; all seasonally adjusted. Clearing Bank base rate (end period).

| | M0 % | M2 % | M4 % | Bank lending £m | BS inflow £m | Cnsmer. credit* £m | Base rate % |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

INFLATION– Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100).

| | Earnings | Basic matls.* | Whsale. mnfg.* | RPI* | Foods* | Reuters cmdty.* | Sterling |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

*Not seasonally adjusted

†Net changes in amounts outstanding, excluding bank loans.

# Yorkshire Chemicals dispute limits rise

Profits of Yorkshire Chemicals rose by £1.1m to £9.6m pre-tax for the 1989 year with trading conditions becoming more favourable as the year progressed.

Mr Phillip Lowe, the chairman, pointed out, however, that the figure would have been considerably greater but for a fourteen-week industrial dispute.

The 13 per cent improvement in profits was achieved on the back of a 19 per cent rise in turnover to £70m – overseas sales totalled £63.4m (£51.08m).

A sharply higher tax charge of £2.88m (£1.95m) left earnings marginally lower at 36.3p (36.5p).

Mr Lowe said future levels of corporate tax were unlikely to restrict growth in earnings per share to the extent experienced during 1989.

The dividend for the year is being lifted by 2p to 12p via a final of 8.5p (7p).

Looking ahead, Mr Lowe said the immediate outlook was good. He noted that worldwide demand for textile colours and auxiliaries remained firm and that for leather treatment chemicals and specialities was improving.

## Herrburger Brooks

Herrburger Brooks, a manufacturer of piano actions, keyboards and hammers, incurred a loss of £52,658 pre-tax for the six months to end-November compared with previous profits of £11,720.

The directors said high interest charges (they rose from £73,847 to £100,854) coupled with reduced margins on piano actions contributed to the loss.

# Back-of-envelope valuation prompted CWG to buy shares

By Clay Harris

UTC SECURITIES, the stockbroker, told a prospective buyer of Dominion International Group shares on September 6 last year that the financial services and property company had a break-up value of 97p per share.

The day after receiving the letter, City & Westminster Group bought 1m Dominion shares through UTC at a total price of £575,000. A fortnight later, the shares were suspended at 52p.

They are now worthless, according to the administrators appointed in January to oversee Dominion's affairs. Ironically, this involves a break-up of the group.

Mr Clive Mattock, head of UTC Securities and now executive deputy chairman of its parent UTC Group, delivered the firm's view of Dominion's break-up value in a letter to Mr Andrew Greystoke, CWG's chairman at the time.

The letter throws more light on Mr Greystoke's untimely decision to buy Dominion shares. Mr Ivor Gershfield, his successor at CWG, is studying the circumstances of the transaction with a view to possible legal action.

"That letter was absolutely critical," Mr Greystoke said yesterday. "Without that letter, there is no way we would have done the bargain. Even more importantly, the shares were paid for – after suspension – on the basis of that document."

At suspension, Mr Greystoke said he had been assured that the halt in trading was only temporary. Even if the value of CWG's stake dropped, he said he expected to be able to recoup the loss through fees in a restructuring of Dominion.

Mr Mattock's letter said the break-up figure was a "rough estimate", ignoring tax, but it was accompanied by a two-page division-by-division review of Dominion. The report suggested that Dominion had a break-up value in excess of £100m, or £68m after taking into account group borrowings of £32m.

Max Lewinsohn, former *deputy chairman of Dominion*

Mr Mattock yesterday described the estimate as "a back-of-the-envelope thing that someone here in the office jotted down". It was sent after the two men had lunch on September 5, at which Mr Mattock raised the issue of Dominion.

"I had no knowledge of the company's financial affairs or the people involved before then," Mr Greystoke said. He asked Mr Mattock for additional information on Dominion, which came in the form of the letter. After Mr Greystoke consulted two fellow CWG directors, the shares were bought on September 7.

The estimate was based on Dominion's published accounts for the year to March 31 1989, Mr Mattock said. "What we didn't know is that the borrowings were £100m not the £32m shown in the accounts. I defy anyone, however well qualified, to go through the accounts and find these problem areas."

A Laing & Cruickshank circular issued in the same week of September pointed to a break-up value of about 50p per share, against UTC's figure of 97p.

The 1m shares which CWG bought were assembled in the market, Mr Mattock said. None came from Mr Max Lewinsohn, Dominion's former deputy chairman who sold more than half of his shares through UTC in August. Those shares are still owned by the institutions which bought them, Mr Mattock said.

The UTC estimates were "extremely optimistic," Mr Carl Openshaw, Dominion's managing director, said yesterday. "They reflected values which might just have been obtainable in a booming market, but a number of Dominion's operations were experiencing difficult trading conditions. The Spanish property operations, for example, had been depressed for some time and values of £35m were clearly overstated."

*Mr Openshaw, who joined* Dominion in July 1989 and will leave next week, also said that net borrowings had been shown in the accounts at £39m, were rising sharply and were nearing £80m in September.

Of the divisions, UTC valued Berwin LaRoche, the specialist pensions and mortgage broker, at £4m; earlier this month it was sold for between £100,000 and £200,000. Dominion Investment Management, which sells Personal Equity Plan packages, went for less than the £1m estimate. Sarnia Mutual, a consumer finance company listed at £1.5m, has gone into liquidation in Guernsey.

A more realistic value of £500,000 was put on Dominion's stake in Intex, a Bermuda-based company set up to develop automated trading systems for financial futures. This was carried at £5.7m in the 1988-89 accounts. UTC was also close to the mark with its 3½p-per-share estimate of the value on Dominion's stake in Southwest Resources.

## COMPANY NEWS IN BRIEF

ARLEY HOLDINGS has acquired the Seafarer International subsidiary of Standard Communications for an initial £351,859 in cash on completion. The initial consideration represents 95 per cent of Seafarer's net assets at end-1989. An adjustment may be made which could result in the partial repayment to Arley of some of the consideration. Seafarer, which makes marine navigation equipment, had sales of £1.8m in 1989. It has traded at a loss in recent years.BEAR BRAND is changing its name and will, from February 19, be known as Courtwell Group.

BULMER (HP) Holdings, the drinks company, has announced plans to sell Dent & Reuss, its wines and spirits agency business. The move is part of its strategy of concentrating on its core businesses of cider, beer, soft drinks and pectin.

CABRA ESTATES has sold EGC, the exhibition construction subsidiary, to the Melville Group for £447,000 cash.

EUROMONEY PUBLICATIONS executive director, Mr Nigel Bance, is to buy from Euromoney 25 per cent in the operating company of Petroleum Economist, the energy industry magazine. Consideration is £154,474. On condition of certain performance criteria, Mr Bance will also receive convertible shares, which will convert into a further 24 per cent of PE's ordinary shares.

FELTRIM MINING has made a reverse takeover for Connary on the basis of one Feltrim share for each share in Connary. Feltrim also intends raising I£468,000 (£436,000) via an offer of two new Feltrim ordinary at 32p each for every three ordinary held on February 12.

IEP FINANCE (Hong Kong): Offer for GPG accepted in respect of 196.98m ordinary shares (60.87 per cent) including an acceptance from SM Nominees in respect of 196.87m (60.83 per cent). The offer is therefore unconditional. IEP owns or has received acceptances for 198.13m ordinary (61.22 per cent).

MACKAY (HUGH): Allied Textile now owns or has received acceptances in respect of 5.15m ordinary (85.2 per cent).

MELVILLE GROUP has acquired EGC, a subsidiary of Cabra Estates, for a cash consideration of £447,000.

MOLEX has entered into a 50-50 joint venture with Lan Alin Industries, based in Taipei, Taiwan. The new joint venture company, named Molex-Alin will take over the operation of Lan Alin. Molex-Alin is one of the Far East's largest maker of coaxial connectors.

NICHOLS (JN) (Vimto) has acquired William Morgan (Bryn), a producer and distributor of soft drinks, for £670,000

OAKHILL now owns 9.98m ordinary and persons acting in concert with Oakhill own 14.24m, together representing 30.6 per cent.

PACIFIC ASSETS TRUST announced that the open offer of 7.2m offer units, comprising one new ordinary and one-fifth of one new Series 1 Warrant, closed at 3pm on February 20. Applications were received in respect of 2,859,755 offer units (39.7 per cent of the units available).

PARIBAS FRENCH Investment Trust: Earnings for 1989 up to 1.11p (1.05p) and dividend 0.9p (0.8p). Total income £484,000 (£415,000). Net asset value 117.68p (76.25p).

PML GROUP has sold the Stratford, London E15, freehold warehouse and offices of Alec Berman & Son, a wholly owned subsidiary, for £925,000.

PROPERTY COMPANY of London has completed a placing of 1m ordinary at 175p per share. This has raised a net £1.58m.

RANK ORGANISATION: In its recent rights issue, acceptances have been received in respect of 96.07 per cent of the 54.53m new ordinary.

SECOND MARKET INVESTMENT: Net asset value at December 31 rose to 284.3p (165.3p) undiluted and to 279.5p (176.8p) diluted. Pre-tax profits were £184,886 (£112,123) and earnings per share 1.04p (0.62p) after tax of £87,937 (£56,157). The dividend is a same again 0.33p.

SLL, on February 19, now owns, has conditionally agreed to acquire, or has received acceptances in respect of 16.05m Saga Group shares (88.76 per cent). The offer remains conditional and has been extended to February 23.

VENTERPOST: In its recent rights issue, acceptances have bee received in respect of 2.41m linked units (96.4 per cent) of the offer.

WHITECROFT has bought HG Graham, a narrow fabrics producer based in Leeds and Edinburgh, for £320,000 cash.

## COMMODITIES AND AGRICULTURE

# Minister defends Kuwaiti defiance of Opec quotas

By Victor Mallet in Kuwait

SHEIKH ALI Khalifa al-Sabah, the Kuwaiti Oil Minister, yesterday defended Kuwait's policy of ignoring the quota system agreed by the Organisation of Petroleum Exporting Countries, on the grounds that demand for oil was far greater than expected.

Unusually for an Opec minister, Sheikh Ali has not merely directed the Kuwait Petroleum Company to overproduce but has admitted it publicly. Kuwait negotiated an increased share of Opec's official output for itself last year, and has a quota of 1.5m barrels a day, but it has recently been producing about 2m b/d.

"Demand is far outstripping our expectations and is likely to keep outstripping our expectations," he said in an interview yesterday. "There are very few countries that have the capacity even to meet their quotas, so we are left with two or three countries that can go above their quotas, and these countries are responsible and care about the price."

Asked if all the other Opec members were happy about the Kuwaiti stance, he said: "No, but then I'm not paid to make everybody happy." Kuwait, with plentiful reserves, is anxious not to let prices rise so high that consumers resort once more to alternative energy sources or stringent energy conservation methods.

Ali Khalifa: "I'm not paid to make everybody happy"

Sheikh Ali is a firm believer in the 18-dollar Opec reference price, and he conceded that Kuwait and other overproducers would cut their output if prices fell below that level. The Kuwaiti Minister is convinced, however, that strong world demand for oil and falling production capacity outside the Gulf is rendering the quota system increasingly irrelevant.

"Why should we carry all this intellectual baggage from the past and try to impose it on the future?" he asked.

In the meantime, Kuwait is pursuing an aggressive policy of downstream and upstream international investment. Last year the Kuwait Foreign Petroleum Exploration Company actively developed its interests in oil and gas in the Far East, Africa and the Middle East, and is negotiating with the Soviet Union to develop fields in the Russian Republic.

Kuwait is planning to establish a $2bn petrochemicals complex at home, and continues to expand its refined products marketing network. "Q8" petrol stations will shortly be appearing in Thailand. Eastern Europe is the latest target, although Sheikh Ali agrees that the situation there is still "very foggy." He said yesterday: "I'll be travelling to some of the east European countries. We may even open small offices in all of these countries."

● Production was resumed yesterday at the Anglo-Norwegian Statfjord field after having been virtually shut in on Tuesday when adverse weather conditions prevented tankers from loading crude oil. However, only one tanker managed to load about 500,000 barrels amid waves of up to 8m, while three others queued.

# Recovery in world meat market expected to continue, says Gatt

By William Dullforce in Geneva

THE TWO-YEAR recovery in the world beef and veal market should continue through 1990 and 1991, according to the secretariat of the General Agreement on Tariffs and Trade (Gatt). Tighter supplies and growing demand are expected to lead to still higher prices which, coupled with declining feed costs, should mean wider profit margins for beef exporters.

In its annual report on international meat markets, Gatt records some important developments in the world beef market last year. Japan emerged as the second biggest importer, after the US, following the lifting of its import restrictions in 1988 under pressure from within Gatt.

Stimulated by the opening of the Japanese market, US exports surged by 43.8 per cent to 450,000 tonnes, making the US the third biggest exporter, behind Australia and the European Community, but ahead of New Zealand.

Gatt expects the US to move into second place this year. The EC became a net importer of beef in 1989; its beef exports dropped by 10.9 per cent as its intervention stocks declined from 424,000 tonnes to 135,000 tonnes during the year and intervention purchases fell. With its consumption continuing to run higher than its production and intervention stocks approaching nil, EC beef shipments are set for an even larger fall – more than 28 per cent – this year, the Gatt secretariat estimates.

Higher export prices last year were due mainly to short supplies. World beef and veal production, reflecting increased cattle herd retention in many countries, fell by between 0.5 and 1 per cent to 48m tonnes. For the first time for many years, the volume of world trade fell, by about 6 per cent, according to Gatt.

The aggregate sales of four major beef exporting countries, Australia, the EC, Brazil and New Zealand, plunged by more than 400,000 tonnes. Brazil's return as a major importer and the slump in its exports benefited Argentina and Uruguay, which were able to ship substantially more beef than in 1988. Beef and veal supplies should decrease further in 1990, or at best remain stagnant, because of herd rebuilding in more countries, Gatt forecasts.

The report poses two major questions: one concerns the extent to which demand for beef imports could rise in Eastern Europe, as countries there liberalise their trade; the other is whether Brazil can make a comeback as an exporter.

*The International Markets for Meat 1989/90, from the Gatt secretariat, 154 Rue de Lausanne, 1211 Geneva 21. Price, SFr25.*

**Selected Countries' Exports of Beef and Veal ('000 tonnes carcass weight equivalent)**

| | 1990* | 1989 | 1988 |
|---|---|---|---|
| Argentina | 420 | 360 | 320 |
| Australia | 920 | 932 | 902 |
| Brazil | 400 | 280 | 528 |
| Canada | 120 | 111 | 89 |
| EC | 490 | 670 | 762 |
| New Zealand | 350 | 430 | 462 |
| US | 525 | 450 | 313 |
| Uruguay | 120 | 175 | 131 |
| Others | 160 | 213 | 227 |
| Total | 3,525 | 3,621 | 3,725 |

* Forecast § Including intra-EC exporting and importing countries participating in the Arrangement Regarding Bovine Meat

# Brussels challenges British milk plan

By Tim Dickson in Brussels

THE European Commission is understood to have challenged aspects of the UK's proposals for allocating its share of the one per cent in new milk quotas agreed by EC agriculture ministers last year.

British officials say discussions are continuing and that it is too early to tell whether the reservations are serious. However the National Farmers Union is concerned that negotiations may not be completed by the end of the marketing year in March, and that producers may inadvertently be forced to pay superlevy penalties as a result.

The proposals – announced by Mr John Gummer, the UK's Agriculture Minister at the NFU annual meeting in London earlier this month – provide for about 62m litres of quota to be allocated to producers with existing quotas of less than 200,000 litres. These small producers would receive about 3 per cent additional wholesale quota with allocations tapered so that no producer's quota would exceed 200,000 litres as a result of the new allocation.

A further 22.5m litres would be for allocation on a loan basis to new entrants to dairying, enabling 150 new entrant farmers to receive 150,000 litres of quota each for a period of up to 10 years. Most of the remaining quota would be given to producers whose successful claims against the original basis of quota allocation in 1984/85 have not been met.

The difficulties raised by the Commission are thought to include aspects of the small farmers' package, the loan scheme, and the differentiation between regions in such a way that producers in Scotland and Northern Ireland would be treated more generously. Nor, it is thought, is Brussels fully satisfied with the conditions which London wants to impose on some of those receiving the "awards."

● The Polish Government has eased restrictions on butter exports following demands by farmers hard hit by a fall in sales of food at home.

The decision to free 20,000 tonnes for export from Poland's growing butter mountain was taken recently by the Government's Economic Committee (KERM), which lifted the butter export ceiling fixed at the end of December at 400 tonnes. Poland last exported butter in the 1960s.

The decision could also be followed soon by a liberalisation of this year's ceiling of 140,000 tonnes on beef, pork and poultry exports. Mr Czeslaw Janicki, the Farming Minister, said: "I shall be asking for more meat export permits."

# Peru changes desert into farmland

## Sally Bowen on South America's most ambitious irrigation scheme

THIRTY MILES of impressively-engineered main irrigation channels snake through the moonscape desert of Peru's north-central coast. Concrete-clad tunnels carve through the Andean foothills in an plan to divert the waters of the Santa River and bring a Chilean-style agribusiness boom to Peru.

Chavimochic is the most ambitious irrigation scheme in the Latin American continent to date. Although severe cash shortages in the crisis-ridden Peruvian economy will prevent President Alan Garcia from fulfilling his party's 60 year-old dream of bringing water to the desert before he leaves office in July, the future of the scheme now seems secure.

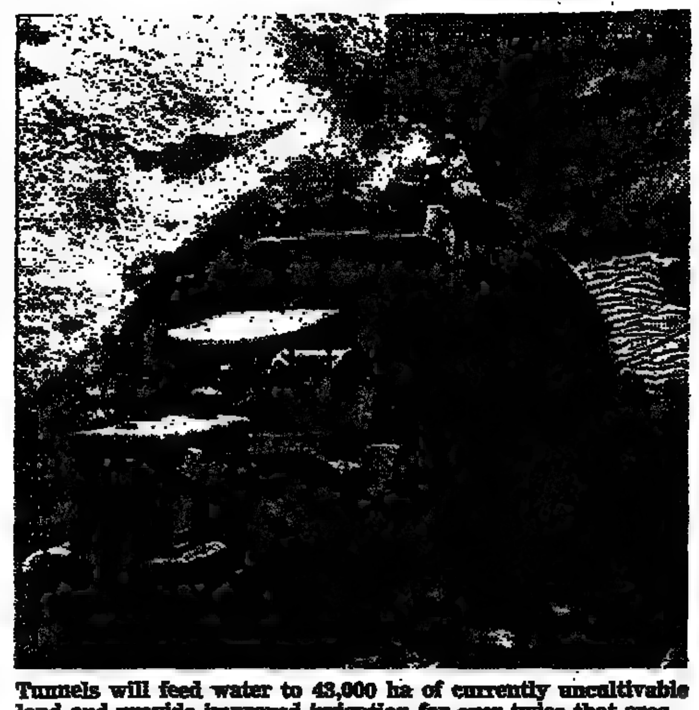
The project takes its name from the four valleys of La Libertad department, Chao, Viru, Moche and Chicama, 300 miles north of the capital, Lima. At a final estimated cost of $1,180m, the four-stage plan will incorporate some 43,000 new hectares of currently uncultivable desert land for agricultural use, and provide improved irrigation for over twice as many.

A reservoir and two hydro-electric plants included in the final stage of the project will guarantee water and power supplies for 500,000 inhabitants of the departmental capital, Trujillo, heartland of Mr Garcia's ruling American Popular Revolutionary Alliance.

The first stage, already 80 per cent complete, involves expenditure of $200m on tunnels and the main irrigation channel. Principal contractor is Brazil's largest private company, Construtora Norberto Odebrecht, and Banco do Brasil's $157.5m loan is the only source of external financing so far.

Mr Garcia has effectively been isolated from sources of borrowing, outside a few friendly Latin American neighbours, since his 1985 stance limiting foreign debt repayments to 10 per cent of export revenues.

The Brazilian terms include a five year grace period and fixed interest of 7.5 per cent. The remainder of the financing for this special project, administered directly by the Ministry of the Presidency, comes from the cash-strapped Peruvian Treasury.



*Tunnels will feed water to 43,000 ha of currently uncultivable land and provide improved irrigation for over twice that area*

Ironically, it was the Brazilians and the necessity of ensuring eventual repayment of their loan that led to an appreciation of the Chilean-style potential of the project.

Odebrecht's Peruvian subsidiary, operational since 1978, already has a major hydro-electric power station in the south under its belt, and is keen to tender for lucrative upcoming contracts such as the Madre de Dios Peru-Brazil highway, exploitation of the Camisea gas field, as well as the later stages of Chavimochic. Understandably eager to demonstrate the success of Chavimochic stage one, Odebrecht Peru stipulated that its tender for construction work should include the installation of four export-oriented agro-industrial plants for the valleys. The first of these, a tomato-paste processing plant, is already under construction. Odebrecht has had a team of agricultural experts testing out suitable varieties on a pilot plot for the past year.

The Chavimochic valleys enjoy considerable climatic advantages and are capable of producing high-priced crops such as tomatoes and asparagus year-round. In the case of tomatoes, Peru has greater agro-industrial potential than the Mediterranean countries which, with a maximum processing period of four months a year, have more than 60 per cent of their installed capacity idle. Relative proximity to the major markets in Japan, Canada and the US, and freight rates a third lower to Japan than from Brazil, give Peru a further competitive edge.

The Chao valley tomato paste plant is to commence production on November 1, with first-year exports of 3,000 tonnes, rising to 20,000 tonnes annually by the time repayments on the Brazilian loan start falling due. Odebrecht expects the tomato plant alone to generate $35m in foreign exchange earnings.

The Sumitomo Corporation, Japan's second largest trading company, will buy all the tomato paste the Chao valley can produce, for shipping in industrial quantities for transformation into ketchup in Japanese and North American plants. With Taiwanese tomato paste production declining, world prices are riding high.

Experts say the 140,000 hectares that Chavimochic could eventually add to Peruvian agribusiness capacity are equivalent to the area on which Chile's 1983-1988 fresh fruit export boom was based. That brings in Peru's southern neighbour some $800m a year in foreign exchange earnings.

Lack of cash to complete the first Chao-Viru stage this year means a delay in Peru's chance to repeat the Chilean miracle. Financing for a vital eight-mile stretch of tunnel and the main dam at the diversion point of the headwaters cannot be found. However an Odebrecht-supported $150,000 makeshift solution will, say the Brazilians, ensure that enough water reaches the first valley by October to bring 5,000 hectares into production.

If novelist Mario Vargas Llosa's Democratic Front comes to power in July, as seems virtually certain, export-oriented industry will receive a long-awaited boost with tax incentives and a more favourable exchange rate. And with international reserves running out fast, Peru will need all the foreign exchange it can get.

It will also remain to the next government to pass a new land-holding law to facilitate the potential Peruvian agribusiness revolution. The current 20 year-old agrarian reform law prohibits land-holding in excess of 150 hectares and bans limited companies from owning land. Most agro-industrial plants need at least 800 hectares to ensure adequate and continuing supply of raw materials.

The land issue is politically sensitive in Peru, and some compromise will have to be reached. One probable solution is to allow agro-industrial businesses to lease land for periods up to 30 years, rather than to own outright.

The sight of a political opponent inaugurating his pet project late this year will be hard for Mr Garcia to take, but there will be tomatoes in at least one Peruvian desert valley by Christmas.

# Cominco plays down Red Dog delays

By Robert Gibbens in Montreal

COMINCO, the metals group based in Vancouver, has rejected wide-spread suggestions that it is suffering severe start-up problems at its C$450m (£220m) Red Dog project in Alaska, the world's biggest zinc-lead mine.

There had been problems in the ore processing system, Cominco admitted, and movement of lead-zinc concentrates from the mine site to the port had been disrupted at times by severe weather since mining started on December 1.

But that was to be expected on such a big project and Red Dog should reach planned production levels by the end of March, the company added.

The mine was still on target to reach full production in 1992.

Mr Robert Hallbauer, president, also insisted that Cominco did not not intend to shut down permanently its Sullivan lead-zinc-silver mine in British Columbia. Last month the company said it would stop mining at the 80-year-old mine because of high production costs, falling zinc prices and other factors. About 700 workers were laid off.

Mr Hallbauer said Sullivan had reserves for another 10 years of operation. "But there is no way Sullivan can go on operating in present economic conditions," he said.

# Bulgaria in manganese deal

NORWAY'S ELKEM group says it has signed a NKr1bn (£90m) contract with four Bulgarian state-owned companies to buy manganese, reports Reuter from Oslo.

Under the terms of the deal, which has a duration of five to seven years, Elkem will buy manganese from Bulgaria, which in return will buy technology and between 25,000 and 27,000 tonnes of ferro-manganese from the Norwegian company every year.

## WORLD COMMODITIES PRICES

### LONDON MARKETS

CONTINUING CONCERN about supplies following a series of production setbacks pushed lead prices on the London Metal Exchange to 4-month highs yesterday. The cash position's £19.50 advance to £485.50 a tonne took the rise on the week so far to £38.50. And the cash premium over metal for delivery in three months, which ended last week at £23.50 a tonne, widened another £17.50 to £51. Problems at a Samim in Sardinia, Britannia Refined Metals in the UK, Noranda's Belledune mine and Cominco's Sullivan in Canada, and Cominco's Red Dog operation in Alaska have all contributed to the concern. Last week LME warehouse stocks fell 2,750 tonnes to 13,275 tonnes, 10,000 tonnes down from the start of the year. The other LME contracts were all lower, led by copper's £32.50 fall to £1,421 a tonne.

**SPOT MARKETS**

| Crude oil (per barrel FOB) | | + or - |
|---|---|---|
| Dubai | $16.45-6.60z | -0.10 |
| Brent Blend | $19.45-9.50z | -0.15 |
| W.T.I. (1 pm est) | $21.85-1.90z | -.275 |

| Oil products (NWE prompt delivery per tonne CIF) | | + or - |
|---|---|---|
| Premium Gasoline | $222-224 | |
| Gas Oil | $170-171 | -1 |
| Heavy Fuel Oil | $89-90 | |
| Naphtha | $190-192 | -1 |
| *Petroleum Argus Estimates* | | |

| Other | | + or - |
|---|---|---|
| Gold (per troy oz)♣ | $420 | +0.25 |
| Silver (per troy oz)♣ | 533c | -1 |
| Platinum (per troy oz) | $532.15 | +6.65 |
| Palladium (per troy oz) | $137.40 | +0.15 |
| Aluminium (free market) | $1465 | -85 |
| Copper (US Producer) | 113⅝-19½c | |
| Lead (US Producer) | 41.5c | |
| Nickel (free market) | 335c | -5 |
| Tin (Kuala Lumpur market) | 16.61r | -0.30 |
| Tin (New York) | 286c | -1 |
| Zinc (US Prime Western) | 65¼c | |
| Cattle (live weight)† | 110.82p | +2.43* |
| Sheep (dead weight)† | 207.89p | +5.79* |
| Pigs (live weight)† | 96.58p | +5.01* |
| London daily sugar (raw) | $353.2x | -5.4 |
| London daily sugar (white) | $428.6x | -2.0 |
| Tate and Lyle export price | £320.0 | -4.0 |
| Barley (English feed) | £111.0w | |
| Maize (US No. 3 yellow) | £127.5 | |
| Wheat (US Dark Northern) | £127.0 | -1.5 |
| Rubber (Mar)♥ | 54.50p | |
| Rubber (Apr)♥ | 55.50p | |
| Rubber (KL RSS No 1 Mar) | 229.5m | |
| Coconut oil (Philippines)§ | $385.0t | |
| Palm Oil (Malaysian)§ | $227.5w | |
| Copra (Philippines)§ | $225 | |
| Soyabeans (US) | £157 | -1 |
| Cotton "A" Index | 77.90c | -0.05 |
| Wooltops (64s Super) | 548p | |

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. x-Feb/Mar. t-Mar/Apr. v-Jan/Mar. w-Mar. z-Apr. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

**COCOA – London FOX** £/tonne

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 629 | 622 | 630 | 618 |
| May | 641 | 632 | 643 | 626 |
| Jul | 653 | 645 | 656 | 640 |
| Sep | 670 | 662 | 671 | 656 |
| Dec | 693 | 685 | 695 | 682 |
| Mar | 715 | 707 | 715 | 704 |
| May | 730 | 722 | 731 | 720 |

Turnover: 13034 (5250) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Feb 20 777.49 (776.81) 10 day average for Feb 21 761.40 (758.76)

**COFFEE – London FOX** £/tonne

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 614 | 607 | 614 | 600 |
| May | 625 | 623 | 628 | 612 |
| Jul | 637 | 636 | 642 | 626 |
| Sep | 654 | 649 | 655 | 640 |
| Nov | 667 | 662 | 668 | 653 |
| Jan | 683 | 676 | 681 | 670 |
| Mar | 697 | 692 | 697 | 690 |

Turnover: 4750 (4546) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Feb 20: Comp. daily 68.85 (67.85). 15 day average 64.71 (64.30)

**SUGAR – London FOX** ($ per tonne)

| Raw | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 322.60 | 322.80 | 322.00 | 318.00 |
| May | 323.80 | 323.80 | 324.00 | 319.20 |
| Aug | 322.80 | 322.80 | 321.40 | 318.60 |
| Oct | 313.60 | 313.60 | 315.40 | 309.20 |
| Dec | 311.40 | 309.00 | 309.00 | |
| Mar | 292.00 | 292.00 | 292.00 | 289.40 |
| **White** | **Close** | **Previous** | **High/Low** | |
| May | 424.0 | 425.0 | 424.5 | 421.0 |
| Aug | 423.0 | 423.0 | 422.5 | 420.5 |
| Oct | 388.5 | 388.5 | 388.5 | 387.0 |
| Dec | 388.5 | | 385.0 | |
| Mar | 360.0 | | 359.0 | |
| May | 358.9 | | 358.5 | |

Turnover: Raw 4060 (3070) lots of 50 tonnes. White 808 (856)
Paris- White (FFr per tonne): May 2410, Aug 2416, Oct 2245, Dec 2130, Mar 2105, May 2110.

**CRUDE OIL – IPE** $/barrel

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Apr | 19.49 | 19.60 | 19.59 | 19.45 |
| May | 19.33 | 19.42 | 19.38 | 19.28 |
| IPE Index | 19.58 | 19.67 | | |

Turnover: 2215 (1500)

**GAS OIL – IPE** $/tonne

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 167.75 | 169.25 | 169.00 | 167.00 |
| Apr | 163.75 | 164.75 | 164.00 | 163.00 |
| May | 161.75 | 162.00 | 162.00 | 161.25 |
| Jun | 162.50 | 162.50 | 161.25 | |
| Jul | 161.75 | 161.75 | 162.50 | 161.75 |
| Aug | 164.00 | 167.00 | 164.00 | 163.00 |
| Nov | 166.00 | | 166.00 | |

Turnover 1829 (3752) lots of 100 tonnes

**WOOL**

FINER Merinos met with better demand at Australian sales this week and prices lifted by 20-50c/kg. The overall market indicator moved 4 cents higher to 889. Otherwise most Australian prices remained at support level, but there were slightly lower percentage purchases by the AWC at each sale, 27-37% being typical. Primary and consumer markets are inevitably concerned at the risk of higher interest rates. In Bradford the impact on stockholding costs and payments is severe. UK top prices are loosely related to quotations of 550p/kg for 64s super, 330p for 58s average, 300p for 50s carded and 288p for 56s English.

**LONDON METAL EXCHANGE** (Prices supplied by Amalgamated Metal Trading)

| | Close | Previous | High/Low | AM Official | Kerb close | Open interest |
|---|---|---|---|---|---|---|
| **Aluminium, 99.7% purity ($ per tonne)** | | | | | | Ring turnover 19,750 tonne |
| Cash | 1467-9 | 1498-500 | 1468/1466 | 1466-7 | | |
| 3 months | 1478-9 | 1503-6 | 1483/1471 | 1476-7 | 1478-9 | 38,233 lots |
| **Copper, Grade A (£ per tonne)** | | | | | | Ring turnover 36,225 tonne |
| Cash | 1420-2 | 1453-4 | 1413/1412 | 1412-3 | | |
| 3 months | 1415-6 | 1443-4 | 1418/1402 | 1409-10 | 1413-5 | 69,867 lots |
| **Lead (£ per tonne)** | | | | | | Ring turnover 5,450 tonne |
| Cash | 485-6 | 465-7 | 487/488 | 486-7 | | |
| 3 months | 434-5 | 432-3 | 437/427 | 433-4 | 434-5 | 10,226 lots |
| **Nickel ($ per tonne)** | | | | | | Ring turnover 1,800 tonne |
| Cash | 7180-200 | 7300-25 | 7250 | 7225-30 | | |
| 3 months | 7180-5 | 7270-5 | 7250/7165 | 7200-10 | 7175-200 | 6,754 lots |
| **Tin ($ per tonne)** | | | | | | Ring turnover 225 tonne |
| Cash | 6205-15 | 6275-85 | | 6220-5 | | |
| 3 months | 6335-40 | 6405-10 | 6360/6335 | 6350-5 | 6340-50 | 4,927 lots |
| **Zinc, Special High Grade ($ per tonne)** | | | | | | Ring turnover 14,900 tonne |
| Cash | 1430-5 | 1440-5 | 1438/1435 | 1435-8 | | |
| 3 months | 1423-5 | 1430-3 | 1435/1415 | 1426-7 | 1433-5 | 18,070 lots |
| **Zinc ($ per tonne)** | | | | | | Ring turnover 1,450 tonne |
| Cash | 1435-45 | 1435-45 | | 1435-45 | | |
| March 30 | 1410-20 | 1410-20 | | 1410-20 | | 829 lots |

LME Closing £/$ rate: SPOT: 1.7135 3 months: 1.6957 6 months: 1.6817 9 months: 1.6678

**POTATOES – BFE** £/tonne

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Apr | 184.5 | 181.7 | 184.5 | 183.0 |
| May | 211.5 | 207.0 | 211.0 | 209.5 |

Turnover 235 (118) lots of 40 tonnes.

**SOYABEAN MEAL – BFE** £/tonne

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Apr | 127.00 | 128.00 | 127.50 | 127.00 |
| Jun | 123.00 | 123.00 | 123.00 | |
| Aug | 122.90 | 123.00 | 122.90 | |

Turnover 74 (53) lots of 20 tonnes.

**FREIGHT FUTURES – BFE** $10/index point

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 1602 | 1603 | 1605 | 1600 |
| Mar | 1643 | 1643 | 1648 | 1638 |
| Apr | 1650 | 1655 | 1655 | 1649 |
| Jul | 1398 | 1400 | 1404 | 1390 |
| Oct | 1493 | | 1500 | 1488 |
| Jan | 1497 | | 1502 | 1500 |
| Apr | 1510 | | 1515 | 1505 |
| BFI | 1591 | 1592 | | |

Turnover 366 (354)

**GRAINS – BFE** £/tonne

| Wheat | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 111.75 | 111.25 | 111.75 | 111.10 |
| May | 115.15 | 114.85 | 115.15 | 114.50 |
| Nov | 108.00 | | 108.00 | |
| Jan | 112.65 | | 113.00 | |
| Mar | 115.85 | | 115.85 | |
| **Barley** | **Close** | **Previous** | **High/Low** | |
| Mar | 104.75 | 104.85 | 104.85 | 104.75 |
| May | 107.30 | 107.85 | 107.30 | |
| Nov | 106.85 | 107.25 | 106.85 | |
| Mar | 112.20 | | 112.20 | |

Turnover: Wheat 138 (340), Barley 95 (104). Turnover lots of 100 tonnes.

**PIGS – BFE** (Cash Settlement) p/kg

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 115.0 | 113.0 | 114.0 | 113.5 |
| Jun | 121.5 | 121.0 | 121.5 | 120.0 |
| Aug | 116.5 | 117.0 | 116.5 | |
| Oct | 123.0 | 121.0 | 122.0 | |

Turnover 87 (141) lots of 3,250 kg

**LONDON BULLION MARKET**

| Gold (fine oz) | $ price | £ equivalent |
|---|---|---|
| Close | 419¼-420¼ | 244¾-245¼ |
| Opening | 421¼-421¾ | 245½-246 |
| Morning fix | 420.80 | 245.420 |
| Afternoon fix | 420.00 | 245.069 |
| Day's high | 422¼-422¾ | |
| Day's low | 419-419½ | |

| Coins | $ price | £ equivalent |
|---|---|---|
| Maple leaf | 432-437 | 252-255 |
| Britannia | 432-437 | 252-255 |
| US Eagle | 432-437 | 252-255 |
| Angel | 432-437 | 252-255 |
| Krugerrand | 419-422 | 244½-246½ |
| New Sov. | 98-99 | 57-58½ |
| Old Sov. | 98-99 | 57-58½ |
| Noble Plat | 538.55-547.05 | 313.95-318.50 |

| Silver fix | p/fine oz | US cts equiv |
|---|---|---|
| Spot | 311.20 | 533.75 |
| 3 months | 322.50 | 544.45 |
| 6 months | 334.25 | 565.75 |
| 12 months | 357.95 | 578.20 |

**TRADED OPTIONS**

| Aluminium (99.7%) | Calls | | Puts | |
|---|---|---|---|---|
| Strike price $ tonne | Mar | May | Mar | May |
| 1400 | 81 | 99 | 5 | 21 |
| 1500 | 19 | 45 | 42 | 63 |
| 1600 | 2 | 14 | 124 | 133 |
| **Copper (Grade A)** | **Calls** | | **Puts** | |
| 2300 | 137 | 139 | 5 | 49 |
| 2400 | 61 | 84 | 29 | 92 |
| 2500 | 18 | 47 | 86 | 153 |
| **Coffee** | **May** | **Jul** | **May** | **Jul** |
| 550 | 79 | | 5 | |
| 600 | 42 | 61 | 18 | 25 |
| 650 | 18 | 35 | 44 | 49 |
| **Cocoa** | **May** | **Jul** | **May** | **Jul** |
| 600 | 49 | 67 | 8 | 14 |
| 650 | 19 | 37 | 28 | 34 |
| 700 | 5 | 18 | 64 | 65 |
| **Brent Crude** | **Apr** | **May** | **Apr** | **May** |
| 1950 | 42 | | 33 | |
| 2000 | 19 | 39 | | |
| 2050 | 5 | | | |

### New York

**GOLD 100 troy oz.; $/troy oz.**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 418.0 | 419.9 | 421.9 | 419.2 |
| Mar | 418.9 | 420.9 | 0 | 0 |
| Apr | 421.6 | 423.6 | 426.4 | 421.2 |
| Jun | 427.3 | 429.3 | 432.0 | 427.0 |
| Aug | 432.7 | 434.7 | 436.5 | 432.5 |
| Oct | 438.0 | 440.0 | 441.0 | 440.0 |
| Dec | 443.4 | 445.4 | 447.5 | 443.0 |
| Feb | 449.1 | 451.1 | 0 | 0 |
| Apr | 454.5 | 456.5 | 0 | 0 |

**PLATINUM 50 troy oz; $/troy oz.**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 524.8 | 528.4 | 0 | 0 |
| Apr | 530.8 | 534.4 | 536.9 | 530.6 |
| Jul | 535.1 | 538.7 | 540.0 | 535.1 |
| Oct | 540.6 | 544.2 | 546.0 | 542.0 |
| Jan | 546.1 | 549.9 | 549.0 | 548.5 |
| Apr | 551.6 | 555.7 | 554.6 | 554.0 |

**SILVER 5,000 troy oz; cents/troy oz.**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 527.2 | 533.2 | 0 | 0 |
| Mar | 528.0 | 534.3 | 537.4 | 527.5 |
| Apr | 532.3 | 538.6 | 0 | 0 |
| May | 536.6 | 542.9 | 548.0 | 536.0 |
| Jul | 545.0 | 551.3 | 555.0 | 544.0 |
| Sep | 553.7 | 560.1 | 562.0 | 556.0 |
| Dec | 565.7 | 572.1 | 574.0 | 565.0 |
| Jan | 569.2 | 575.6 | 0 | 0 |
| Mar | 578.0 | 584.4 | 587.5 | 578.5 |
| May | 586.4 | 592.7 | 592.0 | 592.0 |

**HIGH GRADE COPPER 25,000 lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 115.20 | 114.55 | 115.20 | 112.20 |
| Mar | 114.20 | 113.00 | 114.40 | 110.20 |
| Apr | 110.80 | 110.25 | 110.75 | 108.30 |
| May | 108.20 | 107.30 | 108.10 | 135.30 |
| Jun | 106.20 | 105.30 | 0 | 0 |
| Jul | 104.60 | 103.60 | 104.90 | 101.60 |
| Aug | 103.40 | 102.40 | 0 | 0 |
| Sep | 102.10 | 101.20 | 101.00 | 100.20 |
| Oct | 101.30 | 100.40 | 0 | 0 |
| Nov | 100.60 | 99.70 | 0 | 0 |

**COTTON 50,000; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 69.11 | 68.63 | 69.25 | 68.40 |
| May | 70.98 | 70.18 | 71.06 | 69.95 |
| Jul | 71.14 | 70.37 | 71.28 | 70.21 |
| Oct | 67.10 | 67.25 | 67.25 | 66.90 |
| Dec | 65.95 | 65.87 | 66.00 | 65.66 |

**INDICES**

REUTERS (Base: September 18 1931 = 100)

| Feb 21 | Feb 20 | mnth ago | yr ago |
|---|---|---|---|
| 1807.5 | 1809.9 | 1794.3 | 1960.0 |

DOW JONES (Base: Dec. 31 1974 = 100)

| | Feb 20 | Feb 16 | mnth ago | yr ago |
|---|---|---|---|---|
| Spot | 130.06 | 130.22 | 128.94 | 135.35 |
| Futures | 132.31 | 132.20 | 129.64 | 139.34 |

**CRUDE OIL (Light) 42,000 US galls $/barrel**

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Apr | 21.87 | 22.14 | 22.17 | 21.75 |
| May | 21.71 | 21.98 | 21.95 | 21.64 |
| Jun | 21.48 | 21.70 | 21.70 | 21.44 |
| Jul | 21.18 | 21.48 | 21.41 | 21.16 |
| Aug | 20.92 | 21.18 | 21.14 | 20.88 |
| Oct | 20.66 | 20.83 | 20.72 | 20.66 |
| Nov | 20.58 | 20.76 | 20.74 | 20.52 |
| Dec | 20.50 | 20.71 | 20.70 | 20.48 |

**HEATING OIL 42,000 US galls, cents/US galls**

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 5740 | 5738 | 5780 | 5720 |
| Apr | 5655 | 5670 | 5690 | 5630 |
| May | 5545 | 5582 | 5570 | 5525 |
| Jun | 5450 | 5477 | 5495 | 5430 |
| Jul | 5430 | 5467 | 5470 | 5425 |
| Aug | 5480 | 5527 | 5520 | 5475 |
| Sep | 5580 | 5622 | 5640 | 5580 |
| Nov | 5749 | 5757 | 5750 | 5740 |
| Dec | 5825 | 5827 | 5825 | 5825 |

**COCOA 10 tonnes;$/tonnes**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 1046 | 1015 | 1053 | 1015 |
| May | 1035 | 999 | 1042 | 1001 |
| Jul | 1041 | 1009 | 1045 | 1010 |
| Sep | 1051 | 1021 | 1057 | 1022 |
| Dec | 1078 | 1040 | 1080 | 1044 |
| Mar | 1100 | 1066 | 1103 | 1069 |
| May | 1110 | 1076 | 1084 | 1080 |
| Jul | 1127 | 1093 | 0 | 0 |

**COFFEE "C" 37,500lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 89.64 | 88.91 | 89.90 | 86.50 |
| May | 91.51 | 89.28 | 91.60 | 88.70 |
| Jul | 93.20 | 91.02 | 93.30 | 90.50 |
| Sep | 94.72 | 92.69 | 94.90 | 92.00 |
| Dec | 96.29 | 94.78 | 96.50 | 94.25 |
| Mar | 98.00 | 96.63 | 98.00 | 96.75 |
| May | 99.50 | 98.25 | 99.75 | 99.50 |
| Jul | 100.93 | 99.66 | 0 | 0 |

**SUGAR WORLD "11" 112,000 lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 14.57 | 14.49 | 14.58 | 14.45 |
| May | 14.64 | 14.57 | 14.65 | 14.52 |
| Jul | 14.48 | 14.44 | 14.50 | 14.40 |
| Oct | 14.13 | 14.07 | 14.13 | 14.01 |
| Mar | 13.42 | 13.38 | 13.42 | 13.32 |
| May | 13.29 | 13.27 | 0 | 0 |
| Jul | 13.22 | 13.20 | 0 | 0 |

**ORANGE JUICE 15,000 lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 201.05 | 200.75 | 201.75 | 0 |
| May | 198.10 | 196.70 | 199.75 | 196.30 |
| Jul | 194.30 | 193.60 | 196.00 | 192.50 |
| Sep | 190.10 | 189.00 | 190.10 | 188.75 |
| Nov | 184.25 | 183.35 | 184.80 | 183.50 |
| Jan | 181.55 | 180.05 | 182.00 | 180.50 |
| Mar | 181.55 | 180.05 | 0 | 0 |
| May | 181.55 | 180.05 | 0 | 0 |
| Jul | 181.55 | 180.05 | 0 | 0 |

### Chicago

**SOYABEANS 5,000 bu min; cents/60lb bushel**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 571/0 | 566/2 | 574/0 | 565/4 |
| May | 583/2 | 578/0 | 585/4 | 577/2 |
| Jul | 594/0 | 589/2 | 596/4 | 588/4 |
| Aug | 596/6 | 592/2 | 599/0 | 592/4 |
| Sep | 594/4 | 589/4 | 596/2 | 589/0 |
| Nov | 598/2 | 593/2 | 601/0 | 593/0 |
| Jan | 607/4 | 603/0 | 610/6 | 602/4 |
| Mar | 617/4 | 613/4 | 618/0 | 614/0 |

**SOYABEAN OIL 60,000 lbs; cents/lb**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 20.42 | 19.91 | 20.52 | 19.92 |
| May | 20.68 | 20.20 | 20.77 | 20.20 |
| Jul | 20.77 | 20.33 | 20.85 | 20.31 |
| Aug | 20.67 | 20.25 | 20.68 | 20.27 |
| Sep | 20.50 | 20.20 | 20.50 | 20.20 |
| Oct | 20.32 | 19.98 | 20.40 | 20.10 |
| Dec | 20.23 | 19.99 | 20.30 | 19.95 |
| Jan | 20.15 | 19.92 | 20.20 | 19.95 |
| Mar | 20.10 | 20.01 | 20.10 | 20.10 |

**SOYABEAN MEAL 100 tons; $/ton**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 165.0 | 165.9 | 165.9 | 164.3 |
| May | 169.0 | 169.7 | 169.6 | 168.1 |
| Jul | 173.2 | 173.2 | 173.7 | 172.1 |
| Aug | 174.8 | 174.6 | 175.5 | 173.9 |
| Sep | 176.8 | 176.2 | 177.3 | 175.5 |
| Oct | 178.0 | 177.1 | 178.0 | 176.5 |
| Dec | 180.9 | 179.9 | 181.5 | 178.8 |
| Jan | 181.7 | 181.0 | 182.0 | 180.0 |

**MAIZE 5,000 bu min; cents/56lb bushel**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 243/0 | 241/4 | 243/2 | 241/0 |
| May | 250/0 | 248/2 | 250/2 | 247/6 |
| Jul | 254/6 | 252/6 | 255/2 | 252/2 |
| Sep | 252/6 | 250/6 | 253/0 | 250/4 |
| Dec | 250/2 | 249/0 | 250/6 | 248/4 |
| Mar | 256/4 | 255/2 | 256/6 | 254/6 |

**WHEAT 5,000 bu min; cents/60lb-bushel**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 384/4 | 382/2 | 385/0 | 380/2 |
| May | 364/4 | 360/6 | 364/4 | 359/4 |
| Jul | 344/4 | 342/2 | 345/0 | 342/0 |
| Sep | 350/6 | 348/4 | 351/0 | 348/2 |
| Dec | 362/4 | 360/4 | 363/0 | 360/0 |
| Mar | 370/6 | 368/0 | 370/5 | 367/4 |

**LIVE CATTLE 40,000 lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Apr | 75.62 | 77.12 | 77.00 | 75.62 |
| Jun | 70.42 | 71.87 | 71.85 | 70.37 |
| Aug | 69.82 | 70.90 | 70.95 | 69.85 |
| Oct | 72.62 | 73.10 | 73.10 | 72.40 |
| Dec | 73.07 | 73.50 | 73.40 | 72.75 |
| Feb | 72.87 | 73.30 | 73.00 | 72.80 |

**LIVE HOGS 30,000 lb; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Apr | 47.82 | 47.70 | 47.95 | 47.35 |
| Jun | 53.50 | 53.17 | 53.56 | 53.07 |
| Jul | 53.30 | 53.15 | 53.47 | 53.00 |
| Aug | 51.62 | 51.37 | 51.75 | 51.05 |
| Oct | 46.90 | 46.47 | 46.90 | 46.25 |
| Dec | 47.20 | 47.07 | 47.40 | 47.00 |
| Feb | 47.50 | 47.17 | 47.50 | 47.50 |

**PORK BELLIES 40,000 lbs; cents/lb**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 51.22 | 51.30 | 51.80 | 50.67 |
| Mar | 52.15 | 51.65 | 52.25 | 50.90 |
| May | 53.47 | 52.90 | 53.60 | 52.30 |
| Jul | 53.77 | 53.40 | 53.95 | 52.85 |
| Aug | 51.78 | 51.10 | 52.00 | 51.20 |
| Feb | 55.62 | 55.50 | 56.50 | 55.50 |
| Mar | 54.60 | 54.60 | 0 | 0 |

## LONDON STOCK EXCHANGE

# Equities close above lowest levels

A TENSE session on the London equity market ended with share prices showing hefty losses for the third successive day although these were much reduced from falls recorded earlier as a result of continuing turbulence in international markets.

The latest bout of weakness in the UK equity market was not helped by a much more pessimistic view of the outlook for domestic interest rates and for equities taken by Kleinwort Benson Securities.

The market was in any event braced for a difficult trading session after the Tokyo stock market sustained its third largest fall in a single trading session, losing almost 3.2 per cent or more than 1,100 points off the Nikkei average. Wall Street showed a 38 point decline overnight, having been down more than 50 points at one time after comments by Mr Alan Greenspan, chairman of the US Federal Reserve. Mr Greenspan said the US faced a risk of accelerating inflation, and his comments were interpreted as diminishing hopes of an early cut in US interest rates.

| Account Dealing Dates | | |
|---|---|---|
| *First Dealings: | | |
| Feb 12 | Feb 26 | Mar 12 |
| Option Declarations: | | |
| Feb 22 | Mar 8 | Mar 22 |
| Last Dealings: | | |
| Feb 23 | Mar 9 | Mar 23 |
| Account Day: | | |
| Mar 5 | Mar 19 | Apr 2 |

*New time dealings may take place from 9.00 am two business days earlier.

London's initial and predictable reaction to the Wall Street and Tokyo falls was to mark down prices to deter sellers. Estimated by brokers to have been down around 35 points in unofficial trading, the Footsie opened some 25 points off and began to rally as cheap buyers moved in, reassured by a bounce by West German bonds.

But the recovery failed to hold as dealers and investors began to worry over the possibility of another steep fall on Wall Street which some expected to come in with a drop of around 70 points on the Dow Jones Average.

The Footsie fell to the day's lowest point, down 31 points, just before the opening of Wall Street. In the event Wall Street came in around 25 points down and at the London close stood some 10 points lower. The Footsie closed 17.3 down at 2,259.7, leaving the index 65.2 off over the past three days.

Selling prompted by the more bearish view of the market by Kleinwort Benson began to make its presence felt. The strategy team at Kleinwort now expects a "best case" scenario in the UK of base rates at 15 per cent for the rest of the year, and is looking for the Footsie to fall to possibly 2,000. Kleinwort said it had reworked its forecasts because of the impact of external events rather than the UK's domestic problems. "We are wary of world economic activity and world interest rates," said Mr Trevor Laugharne of Kleinwort.

The performance of the futures market, where the Footsie futures contract moved from a 5 pt discount to the market to a 9 point premium during the afternoon also helped the recovery. Turnover totalled 428.4m shares, compared with Tuesday's 377.4m and Monday's 314.3m.

## FINANCIAL TIMES STOCK INDICES

| | Feb 21 | Feb 20 | Feb 19 | Feb 16 | Feb 15 | Year Ago | 1989/90 High | 1989/90 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs | 80.00 | 79.87 | 79.89 | 80.48 | 80.87 | 88.31 | 89.29 (8/2/89) | 79.87 (20/2/90) | 127.4 (9/1/35) | 49.18 (3/1/75) |
| Fixed Interest | 90.40 | 90.75 | 90.84 | 90.77 | 91.00 | 96.54 | 99.59 (15/3/89) | 90.40 (21/2/90) | 105.4 (28/11/47) | 50.53 (3/1/75) |
| Ordinary Share | 1783.6 | 1799.0 | 1813.5 | 1836.6 | 1829.5 | 1673.7 | 2008.6 (5/9/89) | 1447.8 (3/1/89) | 2008.6 (5/9/89) | 49.4 (26/6/40) |
| Gold Mines | 310.5 | 307.0 | 302.6 | 298.4 | 292.3 | 162.4 | 378.5 (6/2/90) | 154.7 (17/2/89) | 734.7 (15/2/83) | 43.5 (26/10/71) |
| FT-SE 100 Share | 2259.7 | 2277.0 | 2297.1 | 2325.9 | 2313.8 | 2033.7 | 2463.7 (3/1/90) | 1782.8 (3/1/89) | 2463.7 (3/1/90) | 986.9 (23/7/84) |
| Ord. Div. Yield | 4.85 | 4.82 | 4.77 | 4.70 | 4.71 | 4.36 | | | | |
| Earning Yld %(full) | 11.72 | 11.69 | 11.55 | 11.46 | 11.38 | 10.88 | | | | |
| P/E Ratio(Net)(☆) | 10.33 | 10.18 | 10.44 | 10.57 | 10.63 | 11.13 | | | | |
| SEAQ Bargains(5pm) | 25,172 | 22,978 | 30,830 | 27,485 | 25,443 | 30,349 | | | | |
| Equity Turnover(£m)† | - | 817.90 | 814.72 | 785.13 | 1026.85 | 1304.51 | | | | |
| Equity Bargains† | - | 23,135 | 25,712 | 28,883 | 25,219 | 33,081 | | | | |
| Shares Traded (ml)† | - | 354.2 | 306.9 | 384.7 | 524.8 | 510.2 | | | | |

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil = 12.25

Ordinary Share Index, Hourly changes — Day's High 1789.3 — Day's Low 1773.8

| Open | 10 a.m. | 11 a.m. | 12 p.m. | 1 p.m. | 2 p.m. | 3 p.m. | 4 p.m. |
|---|---|---|---|---|---|---|---|
| 1780.8 | 1786.1 | 1783.3 | 1778.3 | 1775.7 | 1773.8 | 1778.3 | 1784.1 |

FT-SE, Hourly changes — Day's High 2261.7 — Day's Low 2246.0

| Open | 10 a.m. | 11 a.m. | 12 p.m. | 1 p.m. | 2 p.m. | 3 p.m. | 4 p.m. |
|---|---|---|---|---|---|---|---|
| 2251.8 | 2260.4 | 2257.8 | 2250.8 | 2248.9 | 2248.0 | 2251.8 | 2259.5 |

### GILT EDGED ACTIVITY

| Indices* | Feb 20 | Feb 19 |
|---|---|---|
| Gilt Edged Bargains | 90.4 | 89.5 |
| 5-Day average | 90.2 | 91.2 |

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share Index: Tel. 0898 123001.

## TRADING VOLUME IN MAJOR STOCKS

| | Volume 000's | Closing Price | Day's change |
|---|---|---|---|
| ADT | 2,800 | 186 | -1 |
| ASDA Group | 2,100 | 207 | |
| Abbey National | 4,700 | 179 | -1 |
| Allied-Lyons | [illegible] | [illegible] | [illegible] |
| Amstrad | 2,200 | 40½ | -1½ |
| Argyll Group | [illegible] | [illegible] | [illegible] |
| Ass. Brit. Foods | 250 | 397 | |
| BAA | 830 | 382 | +5 |
| BAT Inds. | 1,000 | 784 | -16 |
| BET | 1,700 | 238 | -2 |
| BICC | 830 | 401 | -8 |
| Comm. Union | 1,300 | 488 | -2 |
| Cookson | 894 | 228 | -5 |
| Courtaulds | 4,100 | 382 | +7 |
| Dalgety | 769 | 385 | -1 |
| Dixons | 1,200 | 126 | |
| Eng. China Clays | 1,000 | 488 | +7 |
| Enterprise Oil | 246 | 630 | -10 |
| FKI | 8,300 | 80½ | +1½ |
| Ferranti | 737 | 30 | -½ |
| Fisons | [illegible] | [illegible] | [illegible] |
| Gen. Accident | 149 | 1120 | -1 |
| LASMO | 1,000 | 627 | +8 |
| Lonrho | 2,100 | 277 | -2 |
| Lucas | 647 | 579 | -10 |
| MB Group | 1,700 | 208 | -2 |
| MEPC | 363 | 500 | -1 |
| Marks & Spencer | 2,800 | 203 | -1 |
| Maxwell Comm. | 1,200 | 168 | -4 |
| Mecca Leisure | 403 | 145 | -2 |
| Midland Bank | 439 | 347 | -3 |
| NatWest Bank | 7,500 | 345 | +5 |
| Next | 2,000 | 109 | -2 |
| Shell Transport | [illegible] | [illegible] | -4 |
| Slebe | 42 | 425 | -6 |
| Slough Ests | 117 | 300 | -1 |
| Smith (W.H.) A | 1,000 | 305 | -4 |
| Smith & Nephew | 1,700 | 114½ | -1 |
| SmKl Beecham | 1,908 | 512 | -8 |
| SmKl Beecham Units | 32 | 2333 | -52 |
| Smiths Inds. | 946 | 227 | +3 |
| Standard Chartd. | 787 | 588 | -16 |
| Storehouse | 1,200 | 119 | +1 |
| Sun Alliance | 1,100 | 310 | |
| [illegible] | [illegible] | [illegible] | [illegible] |
| Ladbroke | 3,200 | 291 | -4 |
| Land Securities | 1,800 | 480 | |
| Laporte | 165 | 508 | |
| Legal & General | 627 | 365 | -1 |
| Lloyds Abbey | 1,000 | 320 | +8 |
| Lloyds Bank | 1,800 | 239 | +3 |
| STC | 4,300 | 257 | +4 |
| Saatchi | 874 | 282 | -10 |
| Sainsbury | 1,000 | 280 | -1 |
| Scottish & New. | 619 | 317 | -2 |
| Sears | 4,800 | 108 | |
| Sedgwick | 249 | 283 | |
| Willis Faber | [illegible] | 337 | -1 |
| Wimpey | 408 | [illegible] | [illegible] |

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

# Stake stories in STC

The hot money yesterday was drawn towards STC, the electronics group, which rose 4 to 257p as stories emerged of an imminent major deal. Business was much larger than usual - 4.3m shares finally changed hands - amid speculation that major shareholder Northern Telecom was about to dispose of its 27½ per cent holding in STC and that Sun Microsystems may buy 25 per cent of ICL, a subsidiary of STC.

Northern bought the stake in October 1987 at 340p a share and was hoping to develop a close relationship with the UK group, particularly in telecom transmission. But specialists say that not much in the way of synergy had developed between the two groups. Northern's management, according to market accounts, has reviewed the situation and concluded that the status quo cannot be sustained.

US-based Sun Microsystems is one of three overseas partners which developed ICL's new Unicorn computer range. The others are ATT and Fujitsu. The suggestion is that Sun is ready to pay £250m for a 25 per cent stake in the ICL computer business. UBS Phillips & Drew have turned active buyers of STC after having been sellers for some months. STC is confidently expected to announce annual profits of £260m next Tuesday, compared with the previous year's £230m.

### Shell unexciting

Fourth quarter figures from Shell Transport initially took the market by surprise, but a quick re-think on the numbers and slight disappointment with the final dividend saw the shares retreat in vigorous trading before staging a good rally.

The better than expected result arose, specialists said, from currency operations which turned an expected £70m loss into an £80m profit; "one of the rare occasions that Shell have made a profit on its foreign exchange business," commented one analyst, who claimed Shell had benefited from a sharp rise in the Dutch guilder over the period.

Analysts pinpointed the final dividend as the most disappointing aspect of the results. Mr Nick Clayton at Smith New Court reaffirmed his "reduce" recommendation, described the group's operating results as "disappointing" and the dividend as "below expectations" adding that the performance of the chemicals businesses "raised question marks over our 1990 expectations."

At Shearson Lehman Hutton Mr Jeremy Hudson, labelling the dividend as "slightly mean" said his verdict on the stock was "neutral," although he added they were beginning to look high on a yield and p/e relative basis. Shell shares closed a net 4 off at 470p, having been as low as 463p; turnover was 4.8m.

### LASMO hopes

Shares of LASMO, the oil group, were among the best performers of the relatively firm FT-SE 100 stocks to move higher. The shares rose 8 to 627p on turnover of 1m.

Dealers saw two reasons for the performance. One was the announcement that LASMO was inviting offers for a package of "non-core" North Sea assets, including an 8.53 per cent stake in the gas-producing Audrey field and a 3.2 per cent stake in the "J" Block prospect.

Estimates of the value of the assets range from £50m to £70m. But the main impetus behind the share price was a story that LASMO's Westray well - has tested good quality oil at good flow rates and that the discovery could well be extensive.

Kitcat & Aitken said that Westray "could prove to be one of the biggest discoveries in the North Sea for several years with recoverable reserves in the order of 200-400m barrels of oil." The broking house said that if this were the case the value of LASMO's 20 per cent stake could be worth between 50p and 100p a share. Kitcat recommended switching from BP, where they say the rating is too high, or Enterprise, where there are fears that ICI might place its 25 per cent stake.

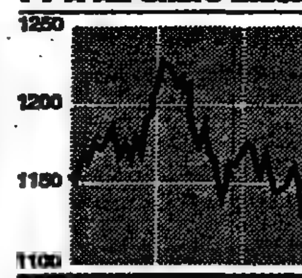
### B&C under pressure

British & Commonwealth weakened sharply for the second day despite the company issuing a strong denial of suggestions that it might be sued by Caledonia Investments, which has a holding of preference shares in B&C.

This story was yesterday supplemented by fears of what might be behind the B&C's decision to release preliminary figures almost three weeks later than last year's date. One analyst said that the announcement had been put off by a fortnight to April 26. B&C's official view is that the delay is to allow for the start of a separate court case involving Quadrex over an incomplete deal between the two companies in the wake of the market crash of October 1987.

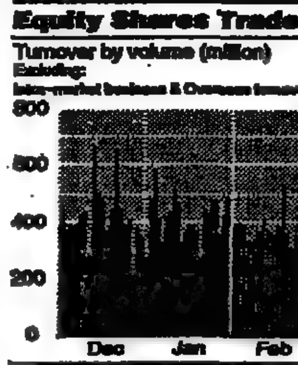
Dealers added that the fall was exacerbated by selling in the traded options market. B&C fell 19 to 54p, making a two-day decline of 15. Volume was a busy 4.9m shares traded.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



### Demerger welcomed

Investors responded positively to the details of Courtaulds' proposed demerger. If approved, Courtaulds shareholders will receive one Courtaulds Textiles share for, and in addition to, every four Courtaulds. Dealings are expected to start on March 19.

The shares were marked down initially with the weak market but investors moved in after a positive analysts' meeting. Mr Jeremy Chantry at Kleinwort Benson said that on the basis of profit forecasts given, "the shares should be trading at around 400p." He recommended buying up to that level, noting, however, that any assessment of the companies against their respective sectors would depend on which sector they were allocated to by the Stock Exchange - either "other industrial materials" or "chemicals." The companies, said Mr Chantry, would prefer the former.

Mr Lawrence Rubin at Kitcat and Aitken agreed with bullish interpretations of the proposals, saying the buyers had been justified in their interest yesterday. Courtaulds turned over a busy 4.1m shares and the price rose 7 to 382p.

Wellcome firmed against the market trend as the company began a series of one-to-one meetings with pharmaceuticals analysts. The first three yesterday included Kleinwort Benson, which afterwards reiterated its buy recommendation. Mr Ian White said that the stock was attractive up to 750p. There will be further meetings at the end of this week and at the start of next. Wellcome firmed 5 to 680p on light turnover of 434,000 shares.

Trading in Eurotunnel returned to its more usual quiet state after recent volatility in the wake of a row between the company and the consortium of contractors building the Channel tunnel. The shares added 8 at 588p on reduced turnover.

Standard Chartered shed 16 to 588p in a belated reaction to the deal on Tuesday in which Australian bank Westpac bought a stake in one of its rivals. Westpac has been mentioned as a possible buyer of Standard.

Further consideration of the results and dividend rise on Tuesday from NatWest encouraged further buying. The shares climbed 5 to 345p as 7.5m changed hands, more than double the turnover of the other big three. Lloyds, which reports tomorrow rose 3 to 239p, while Midland slipped 3 to 347p ahead of results today. Barclays eased 2 to 553p.

A buying order for Guinness placed through an agency broker left the market short of stock and the price 4 higher at 854p.

The construction sector was relieved to learn that the UK Government's planned expenditure on road-building was in line with previous estimates, despite reports of cutbacks. Giving details of spending over the next three years, Mr Cecil Parkinson, the Transport Secretary, rejected environmentalists' demands for cuts and reaffirmed the authorities' commitment to the largest road building programme ever undertaken.

Leading stocks were thus able to shake off the malaise affecting other equities. Most regained early losses to close higher on balance, although there were some casualties. Tarmac dipped to 213p before settling with a minor gain on the session at 219p, while RMC rallied from 590p to finally show a net rise of 10 at 610p. Tilbury recovered 7 to 635p, Taylor Woodrow regained 4 to 275p, after 264p, and Costain picked up 3 at 375p. The losers included Alfred McAlpine, down 11 further to 334p, J Laing 7 off at 277p and R M Douglas, which shed 16 to 404p.

ICI traded nervously ahead of today's results, the shares giving up 11 to 1027p.

Yorkshire Chemicals reversed recent rises and the shares fell 4 to 374p as profit takers moved in with the release of the company's full year results in line with market expectations.

Profits rose by 13 per cent to £9.6m in the year to December 1989. Mr Martin Evans at BZW said the results were in line with his expectations and added "prospects for the coming year are encouraging particularly in the colours area where volume and price gains of 5 per cent are expected."

Body Shop fell 15 to 550p as the stores team at Goldman Sachs questioned the validity of the company's 33 times earnings rating. Goldman said sales growth at Body Shop was falling "as you would expect in the middle of a retail slowdown."

Smith Industries, recently a weak market was one of only a few stocks to buck the market. The shares added 3 to 227p. An analyst said: "The shares have been oversold on defence fears but the interim results (due on April 11) are likely to beat market expectations."

Kwik-Fit dipped below 100p as Continental AG, the West German tyre maker with a 13 per cent stake in Kwik-Fit announced it was to buy the National Tyre Company from Michelin UK for £140m. Kwik-Fit fell 6 to 98p as the prospect of a bid from Continental faded.

Tate & Lyle lost 9 to 305p as the US institutional investors who had been recently in the market stopped buying. But Tate visited Hoare Govett on Tuesday evening and left Hoare's analysts encouraged by their optimistic stance on Sucralose. Mr Richard Workman of Hoare said that if Sucralose, a diet sweetener, is approved by the US Food and Drug Administration, Tate's profits should rise.

Saatchi and Saatchi fell quickly as County NatWest WoodMac issued a sell note on the stock. The shares dipped below £2 before closing at 282p, a fall of 10 on the day.

Dealers said that one securities house was trying to unwind a line of 500,000 United Newspapers shares, acquired in last week's programme trades. United fell 16 to 365p.

BICC eased 8 to 401p as Kleinwort Benson trimmed full year profit expectations by £15m to £205m. Kleinwort blamed the weak Australian dollar where BICC derives 30 per cent of its profits for the cut, though the analyst Ms Janet Siddaway refused to elaborate.

Yesterday's stockmarket falls in Hong Kong where Cable and Wireless has a controlling stake in Hong Kong Telecom, caused the C and W shares in London to ease 10 to 534p.

Interest in the traded options market helped BAA buck the market's weakness to close 5 up at 382p, while renewed institutional buying pushed P & O 6 better to 616p. "They usually have a good run ahead of the figures," said one trader.

Dealings resumed in McLeod Russel following the placing of 19.75m shares, representing the interests of the Guthrie family including those of Mr J Guthrie, a former non-executive of McLeod, with institutional investors. The placing of the shares, some 43.8 per cent of McLeod's equity, was effected at 115p compared with the suspension level of 132p. The price touched 126p before easing to close at 123p.

■ Other Market statistics, including the FT-Actuaries share index, London Traded Options, and recent issues Page 30

### NEW HIGHS AND LOWS FOR 1989/90

NEW HIGHS (8). BRITISH FUNDS (2) ELECTRICALS (2) INDUSTRIALS (1) Amer. Bus. Systems, PAPERS (1) WATER (1).
NEW LOWS (226). AMERICANS (4) CANADIANS (3) BANKS (10) BREWERS (8) BUILDINGS (12) CHEMICALS (3) STORES (8) ELECTRICALS (10) [illegible] (6) FOODS (10) HOTELS (2) INDUSTRIALS (36) Allied Partnership, Arley, Baer Brand, Beaverco, Billam (J.), Brown & Tawse, CMS Packaging, Cargo Control, Cont. Stationery, Cookson, Courtney Pope, De La Rue, Ferromet, Fletcher Challenge, Harrisons & Crosfield, Hampton Inds., Hickson, Hunting, Jones (Thos), Liley (FJC), Lincoln House, Magnolia, Manders Inds., Norton, RKF, Renmore, Sale Tilney, Savage, Shaw (Arthur), Sidlaw, Silverwines, Smith & Nephew, Smiths Inds., Stainless Metalcraft, Sternhill, Stora "B" Free, Sosec, Unigroup, Whitecroft. INSURANCE (7) LEISURE (11) MOTORS (4) NEWSPAPERS (6) PAPERS (15) PROPERTY (14) TEXTILES (7) TOBACCOS (1) TRANSPORT (3) TRUSTS (17) OILS (3) OVERSEAS TRADERS (1) PLANTATIONS (1) MINES (9) THIRD MARKET (3).

## LONDON SHARE SERVICE

### BRITISH FUNDS

| 1989/90 High | Low | Stock | Price £ | + or - | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| "Shorts" (Lives up to Five Years) | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Five to Fifteen Years | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Over Fifteen Years | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Undated | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### BRITISH FUNDS—Contd

| 1989/90 High | Low | Stock | Price £ | + or - | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| Index-Linked | | | | | | |
| | | (b) | | | (1) | (2) |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for June 1989: 115.4 and for January 1990: 119.5.

### INT. BANK AND O'SEAS

| 1989/90 High | Low | Stock | Price £ | + or - | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### CORPORATION LOANS

| 1989/90 High | Low | Stock | Price £ | + or - | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### COMMONWEALTH & AFRICAN LOANS

| 1989/90 High | Low | Stock | Price £ | + or - | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### LOANS

Building Societies

| 1989/90 High | Low | Stock | Price £ | + or - | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Public Board and Ind. | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### FOREIGN BONDS & RAILS

| 1989/90 High | Low | Stock | Price £ | + or - | Div % | Red. Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### AMERICANS

| 1989/90 High | Low | Stock | Price £ | + or - | Div Gross | C'vr | Y'ld Gr's |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### AMERICANS—Contd

| 1989/90 High | Low | Stock | Price £ | + or - | Div Gross | C'vr | Y'ld Gr's |
|---|---|---|---|---|---|---|---|
| 12 | 858p | Able-Rod Labs. A | 991p | -4 | - | - | - |
| 20½ | 13½ | Brewster Inc. | 14½ | | $1.20 | | 5.0 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### CANADIANS

| 1989/90 High | Low | Stock | Price £ | + or - | Div Gross | C'vr | Y'ld Gr's |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Continued on next page

## APPOINTMENTS

# Finance post at Rockware Group

■ Mr Ernest W. Burton, finance director of Molins, becomes finance director of ROCKWARE GROUP on March 31 when Mr Tony Hargreaves retires. Mr Hargreaves continues as chairman of Rockware's pension trustee companies.

■ Mr Roger Hills has been appointed chairman, and Mr John Henderson managing director, of Schroder Personal Financial Management, private client investment arm of SCHRODER INVESTMENT MANAGEMENT.

■ Mr Roger Payton, a non-executive director since 1985, has been appointed deputy chairman of GREAT PORTLAND ESTATES. Mr Len Jarrad, who retires as senior partner of Hillier Parker on April 30, joins the Great Portland board on May 1.

■ THE KILROE GROUP has appointed Mr William Lowry as plant director, a new post. He was with George Wimpey.

■ PARKWAY GROUP has appointed former DRG chief executive Mr Moger Woolley as chairman.

At HAMMERSON PROPERTY INVESTMENT AND DEVELOPMENT CORP Mr Tony Ball, chief executive, Hammerson Property Pty, Australia, has been appointed to the main board, retaining his Australian post. Also joining the main board is Mr John Richards *(pictured)*, London office development director, Hammerson U.K. Properties.

■ Mr Lionel Cox has been appointed director of operations at City dealerboard supplier CONTEL IPC (UK). He was installation manager.

■ J. & J. FASHIONS has appointed Mr Graham Miller as joint assistant managing director, and Mr John Knowles as production director.

■ OCEONICS GROUP has appointed Mr Allan Starkie as chief executive and managing director of the construction technology division. He was projects manager, London office, Miller-Druck International, a specialist stone company.

■ UPS INTERNATIONAL has appointed Mr Nick Parsons as managing director of associate company, Contract Administration, Bristol. He was director of support services with UPSI subsidiary United Professional Systems.

■ Mr John Dashper, managing director of the recently acquired Rockingham Plate Group, has been appointed to the group board of BROOKE TOOL ENGINEERING (HOLDINGS).

■ WOOLWORTHS has appointed Mr Dan Bernard as MIS director. He joined parent company Kingfisher last year from Nabisco Group, where he was group information services director. Mr Martin Toogood, managing director of Habitat UK, joins Woolworths as retail operations director on April 2.

■ CADBURY has made the following changes from March 5. Mr Stephen Ward, marketing director, becomes business development director, taking responsibility for franchise activity and for Jamesons. Mr John Taylor, managing director of ITnet, a computer service company owned by Cadbury Schweppes, succeeds Mr Ward as marketing director. Mr Paul Williamson, commodities director, becomes external affairs director, and responsibility for commodity buying will be transferred to Mr Chris Kent, logistics director.

■ CARCLO ENGINEERING GROUP has appointed Mr David William Adam as group finance director. He was managing director of E.J. Arnold & Son.

■ Mr Paul Meredith has been made chief executive of UBS ASSET MANAGEMENT, and executive chairman of Phillips & Drew Fund Management.

Mr John Hodson *(pictured)* has been appointed financial divisional director of FOSTER WHEELER, Reading. He has been implementing the company's new online accountancy system.

# LONDON SHARE SERVICE

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## BANKS, HP & LEASING

| 1989/90 High | Low | Stock | Price | + or – | Div Net | C'vr | Y'ld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| *303 | 216 | ANZ SA1 | 252 | –5 | 44c | 1.4 | 7.9 | 9.0 |
| 191 | 134 | Abbey National 10p | 178 | –1 | L7.7 | 2.7 | 5.8 | 7.2 |
| *282 | 120½ | Allied Irish Ord | 244 | ...... | tt068% | 3.3 | 3.3 | 12.6 |
| £13½ | £11¼ | Algemene Fl.10 | £11⅞ | –⅛ | Q28% | 2.0 | 7.8 | 6.4 |
| *85 | 61 | Anglo Irish | 80 | –5 | Q18.7% | 2.7 | 5.5 | 10.9 |
| 81 | 57 | Ansbacher (H.) 1p | 73 | –1 | 2.0 | – | 3.7 | – |
| £72¼ | £38¼ | Bancaire Cie Fr100 | £51¼ | +1¼ | [illegible] | – | 2.6 | – |
| £46¼ | £35¼ | Banco Bilbao Viz | £38½ | ...... | Q35.7% | 2.0 | 3.5 | 14.1 |
| £33 | £25¼ | Banco de Santander | £25¼ | ...... | Q25% | 2.4 | 4.1 | 5.5 |
| *286 | 164 | Bank Ireland Ir£1 | 254 | –1 | [illegible] | 3.2 | 4.6 | 8.7 |
| £19½ | £17½ | Bank Leumi | £19½ | ...... | – | – | – | – |
| 350 | 345 | Bank Leumi (U.K.) | 345 | ...... | †13.5 | – | 5.2 | – |
| 125 | 88 | Bank Scotland | 118 | –1 | †3.8 | 3.6 | 4.3 | 8.5 |
| 112¼ | 95½ | Do. 9¼pc Irrd Pf | 96½ | +¼ | 9¼% | – | 12.8 | – |
| *67 | 49 | Bank of Wales | 52 | ...... | 2.8 | 1.6 | 7.2 | 10.9 |
| *588 | 404 | Barclays £1 | 533 | –2 | †23.0 | 3.5 | 5.5 | 6.3 |
| 31 | 19 | Benchmark 20p | 20 | ...... | 1.63 | 1.0 | 10.8 | 11.5 |
| 363 | 285 | Brown Shipley £1 | 310 | –2 | †10.5 | – | 4.5 | – |
| 455 | 325 | Cater Allen £1 | 413 | –2 | 23.5 | – | 7.6 | – |
| 259 | 157 | Chancery | 172 | ...... | †8.0 | 2.8 | 6.2 | 7.6 |
| £23¼ | £14½ | Commerzbk DM10 | £20½ | –⅛ | Q18% | – | 3.2 | – |
| *£29 | £22¼ | C'hgn.Hbk.Kr100 | £24⅞ | +⅛ | Q15% | – | 5.8 | – |
| £16⅞ | £10⅞ | Dai Ichi KBk Y50 | £11½ | –⅛ | †Q16% | 8.8 | 0.3 | 38.9 |
| *£310½ | £151⅞ | Deutsche Bk DM50 | £271½ | –2½ | Q24% | – | 1.6 | – |
| £22¼ | £17½ | Espirito Santo | £19½ | ...... | Q75c | 3.3 | 2.4 | 13.0 |
| 260 | 182 | First Nat. Fin. 10p | 216 | +1 | 13.0 | 2.4 | 8.0 | 6.7 |
| 134 | 90 | FNFC 6.3pc Cv. Pf | 108 | –3 | 6.3% | – | 7.8 | – |
| £16¾ | £13½ | Fuji Bank Y50 | £13⅞ | –⅛ | Q15.6% | 4.2 | 0.2 | – |

### Hire Purchase, Leasing, etc.

## BEERS, WINES & SPIRITS

## BUILDING, TIMBER, ROADS

## BUILDING, TIMBER, ROADS – Contd

## CHEMICALS, PLASTICS

## DRAPERY AND STORES

## ELECTRICALS

## ELECTRICALS – Contd

## ENGINEERING

## ENGINEERING – Contd

## FOOD, GROCERIES, ETC

## HOTELS AND CATERERS

## INDUSTRIALS (Miscel.)

## INDUSTRIALS (Miscel.) – Contd

## INDUSTRIALS (Miscel.) – Contd.

## INSURANCES

## LEISURE

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## MOTORS, AIRCRAFT TRADES

### Commercial Vehicles

### Components

### Garages and Distributors

## NEWSPAPERS, PUBLISHERS

## PAPER, PRINTING, ADVERTISING

## PROPERTY

## PROPERTY—Contd

## SHOES AND LEATHER

## SOUTH AFRICANS

## TEXTILES

## TOBACCOS

## TRANSPORT

## TRUSTS, FINANCE, LAND

### Investment Trusts

## TRUSTS, FINANCE, LAND—Contd

### Finance, Land, etc

## WATER

## OIL AND GAS

## OIL AND GAS—Contd

## OVERSEAS TRADERS

## PLANTATIONS

### Rubbers, Palm Oil

### Teas

## MINES

### Central Rand

### Eastern Rand

### Far West Rand

### O.F.S.

### Diamond and Platinum

### Central African

### Finance

### Australians

### Tins

## MINES—Contd

### Miscellaneous

| 1989/90 High | Low | Stock | Price | + or − | Div Net | C'vr | Y'ld Gr's |
|---|---|---|---|---|---|---|---|
| 247 | 69 | Anglesey Mining 9p. y | 165 | −5 | – | – | – |
| 166 | 18 | Do. Warrants y | 95 | −5 | – | – | – |
| 32½ | 12 | Anglo-Dominion | 14 | ...... | – | – | – |
| 705 | 386 | Bond Intl. Gold | 590 | +3 | – | – | – |
| 64 | 25 | Butte Mining 10p... y | 26 | ...... | – | – | – |
| 50 | 19½ | ♦Colby Res Corp. | 28 | ...... | – | – | – |
| 125 | 83 | Cons. Murch. 10c | 86 | +1 | Q30c | 5.5 | 8.9 |

## THIRD MARKET

| 1989/90 High | Low | Stock | Price | + or − | Div Net | C'vr | Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| 21½ | 11 | Scott Pickford 10p... y | 12 | ...... | ♦0.38 | 3.8 | 4.2 | 8.1 |
| 160 | 95 | Seacon Hldgs. y | 151 | −8 | †2.5 | 6.1 | 2.2 | 9.4 |
| 51 | 29 | Sempernova y | 32 | ...... | – | – | – | 7.0 |
| 39 | 20 | Sleepy Kids 5p y | 29 | ...... | – | – | – | – |
| *3¼ | 1¼ | Sunyard Studios 1p y | 2½ | ...... | – | – | – | 12.0 |
| 50 | 28 | Tavern Leis. 20p... | 31 | +1 | ♦ | – | – | – |
| 115 | 28 | Tomorrows Leisure 20p y | 79 | ...... | – | – | – | 30.1 |
| 113 | 35 | UPL Group 10p y | 93 | ...... | †2.75 | 2.9 | ‡ | 10.4 |
| 150 | 128 | Unit Group y | 142 | ...... | 5.0 | 3.3 | 4.7 | 8.1 |
| 100 | 66 | Video Magic Leis. 1p y | 88 | ...... | W2.0 | 0.7 | 3.1 | 68.9 |
| 14 | 4 | Vista Ents 5p y | 4½ | ...... | – | – | – | – |
| 40 | 15 | Vizcaya Hldgs 5p y | 16 | ...... | – | – | – | – |
| 46½ | 23 | Whitegate Leisure 20p y | 38 | ...... | 0.25 | ♦ | 0.9 | ♦ |
| 32½ | 10 | Do. Wrrnts y | 24 | ...... | – | – | – | – |
| 10½ | 4½ | Wilton Group 1p y | 4½ | ...... | – | – | – | – |

### NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ● USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ●● Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

| | | |
|---|---|---|
| Albany Inv 20p y | 85 | +2 |
| Craig & Rose £1 y | 630 | ...... |
| Finlay Pkg. 5p y | 58 | ...... |
| Holt (Jos) 25p y | 1350 | +2 |

### IRISH

| | | |
|---|---|---|
| Cap. 8½% Ln. 1991 | £96½ | ...... |
| 9pc Cap Ln. 1996 | £90½ | +½ |
| Fin. 13% 97/02 | £107½ | ...... |
| Arnotts | 415 | ...... |
| Carroll (P.J.) y | 155 | −5 |
| Hall (R. & H.) | 185 | −5 |
| Helton Hldgs. y | 98xd | ...... |
| IRG | 218 | ...... |
| United Drug | 160 | ...... |

## TRADITIONAL OPTIONS

3-month call rates

| Industrials | p |
|---|---|
| Allied-Lyons | 41 |
| Amstrad | 6½ |
| Astec (BSR) | 5½ |
| BAT | 67 |
| BOC Grp | 44 |
| BTR | 37 |
| Barclays | 40 |
| Blue Circle | 28 |
| Boots | 23 |
| Bowaters | 39 |
| Brit Aerospace | 46 |
| British Steel | 9 |
| Brit. Telecom | 22 |
| Cadburys | 31 |
| Charter Cons | 42 |
| Comm Union | 40 |
| Courtaulds | 31 |
| Eurotunnel | 65 |
| FKI | 8 |
| FNFC | 22 |
| Gen Accident | 92 |
| GEC | 19 |
| Glaxo | 68 |
| Grand Met | 44 |
| Guardian | 19 |
| GKN | 33 |
| Hanson | 18 |
| Hawker Sidd. | 55 |
| ICI | 90 |
| Jaguar | 85 |
| Ladbroke | 25 |
| Legal & Gen. | 31 |
| Lex Service | 26 |
| Lloyds Bank | 21 |
| Lucas Inds | 54 |
| Marks & Spencer | 16 |
| Midland Bk | 26 |
| Morgan Grenfell | 38 |
| Nat West Bk | 23 |
| P & O Dfd | 82 |
| Polly Peck | 38 |
| Racal Elect | 20 |
| RHM | 39 |
| Rank Org Ord | 72 |
| Reed Intnl | 34 |
| STC | 25 |
| Sears | 9 |
| SmKl. Beecham A | 48 |
| TI | 38 |
| TSB | 9 |
| Tesco | 16 |
| Thorn EMI | 63 |
| Trust Houses | 23 |
| T&N | 16½ |
| Unilever | 57 |
| Vickers | 22 |
| Wellcome | 55 |

| Property | |
|---|---|
| Brit Land | 27 |
| Control Secs | 5 |
| Land Securities | 45 |
| MEPC | 45 |
| Mountleigh | 13 |

| Oils | |
|---|---|
| Brit Petroleum | 25 |
| Burmah Oil | 65 |
| Charterhall | 2½ |
| Conroy Petlm | 9 |
| Premier | 10½ |
| Shell | 37 |
| Tuskar Res. | 12 |
| Ultramar | 28½ |

| Mines | |
|---|---|
| Lonrho | 23 |
| RTZ | 45 |

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## AUTHORISED UNIT TRUSTS

**Abbey Unit Tst Mngrs (1000)H**
80 Holdenhurst Rd, Bournemouth 0345 717373

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| High Income | | | | | | |
| American Income | 6 | 48.54 | 48.54xd | 51.92 | -0.58 | 5.20 |
| Gilts & Fixed Int | 6 | 105.4 | 105.4 | 111.7 | +0.1 | [illegible] |
| High Inc Equity | 6 | 133.2 | 136.5xd | 145.3 | +1.9 | 4.37 |
| Worldwide Bond | 6 | 192.0 | 192.0xd | 203.4 | -0.3 | 6.34 |
| Capital Growth | | | | | | |
| American Growth | 6 | 179.9 | 179.9xd | 187.9 | -3.9 | 1.17 |
| Asian Pacific | 6 | 134.1 | 134.1 | 152.8 | -3.7 | 0.60 |
| Assets & Earnings | 6 | 153.6 | 153.6 | 164.3 | -1.8 | 3.07 |
| Capital Reserve Acc | 0 | 88.67 | 88.67 | 88.75 | -0.03 | 6.76 |
| Capital Reserve Inc | 0 | 78.68 | 78.68 | 78.74 | -0.02 | 7.42 |
| Comdty & Energy | 6 | 110.5 | 112.9 | 120.2 | -1.3 | 0.70 |
| Dividend & Growth | 6 | 45.87 | 46.96 | 49.96 | -0.8 | 4.38 |
| 1992 Enterprise | 6 | 60.92 | 60.92 | 65.14 | -0.58 | [illegible] |
| Euro Capital Acc | 6 | 96.51 | 96.51 | 103.3 | -1.0 | 0.92 |
| Euro Capital Inc | 6 | 93.05 | 93.05 | 99.52 | -1.08 | 0.95 |
| General | 6 | 172.3 | 172.3xd | 184.3 | -1.7 | 2.71 |
| International | 6 | 60.30 | 60.30xd | 64.50 | +1.01 | 0.79 |
| Japan | 6 | 107.7 | 107.7 | 115.2 | -5.1 | 0.00 |
| Mastertrust | 6 | 87.70 | 87.70 | 93.80 | -1.65 | 1.51 |
| UK Growth Acc | 6 | 178.3 | 178.3 | 190.7 | -2.4 | 1.41 |
| UK Growth Dist | 6 | 117.9 | 117.9 | 126.1 | -1.7 | 2.43 |
| US Emerging Cos | 6 | 51.20 | 51.20 | 54.76 | -1.04 | 0.00 |
| Income & Growth | 6 | 295.7 | 295.7 | 316.3 | -3.0 | 3.36 |
| Ethical | 6 | 47.91 | 49.13 | 52.27 | -0.38 | 1.91 |

**Abtrust Management Ltd (1000)H**
10 Queens Terrace, Aberdeen AB9 1QJ [illegible]

**Bryant Unit Tst Mngmt Ltd (1400)F**
Haldeah Hse, Portman Sq, W1H 0JR 01-935 6302

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| Income Growth | 1 | 191.7 | 191.7 | 198.6 | ---- | 4.80 |

**Buckmaster Mangmt Co Ltd (1200)H**
The Stock Exchange, London EC2P 2JT 01-588 2868

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| Emerging Gwth | 5 | 60.21 | 61.99 | 65.95 | -0.74 | 3.38 |
| (Accum Units) | 5 | 62.34 | 63.78 | 67.67 | -0.82 | 3.28 |
| Fallowfield Tst | 5 | 61.38 | 61.38 | 64.80 | -0.74 | 3.05 |
| (Accum Units) | 5 | 63.54 | 63.54 | 67.19 | -2.78 | 3.05 |
| General Inc | 5 | 281.9 | 281.9 | 298.1 | -6.1 | 3.60 |
| (Accum Units) | 5 | 483.1 | 483.1 | 510.9 | -10.6 | 3.60 |
| Income | 5 | 154.9 | 156.5 | 166.1 | -2.2 | 4.99 |
| (Accum Units) | 5 | 307.2 | 310.4 | 329.3 | -4.3 | 4.99 |
| International | 5 | 106.7 | 106.7 | 112.8 | -1.4 | 1.00 |
| (Accum Units) | 5 | 147.5 | 147.5 | 156.0 | -1.8 | 1.00 |
| Smaller Co's | 5 | 105.5 | 107.2 | 113.7 | -0.5 | 2.19 |
| (Accum Units) | 5 | 117.0 | 118.9 | 126.2 | -0.5 | 2.19 |
| Inv Portfolio | 2½ | 52.39 | 53.39 | 55.00 | -0.48 | 1.96 |
| (Accum Units) | 2½ | 54.92 | 55.94 | 57.67 | -0.5 | 1.96 |
| High Income Port | 3 | 46.46 | 47.12 | 48.83 | -0.34 | [illegible] |

**Burrage Unit Tst Mangmt Ltd (0905)F**
117 Fenchurch St, London EC3M 5AL 01-480 7216

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| Sm Dd Glt & FI | 1¼ | 56.10 | 56.10 | 56.90 | -0.06 | 2.77 |

**CCF Foster Braithwaite UT Mngt (1100)F**
1 White Hart Yard, London SE1 1NX 01-407 9966

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| CCF Sel High Inc Eqy | 5½ | 46.94 | 46.94 | 49.91 | -0.80 | 5.5 |
| CCF Sel Intl Gwth | 5½ | 47.94 | 47.94xd | 51.55 | -1.62 | 1.43 |
| CCF Sel Nr Tst | 5½ | 46.44 | 46.44 | 49.77 | -0.19 | 2.0 |
| CCF Sel UK Sm Co's | - | - | - | 50.00 | ---- | 0.00 |

**CCL Unit Trusts Ltd (1400)F**
74 Shepherds Bush Green, W12 8SD 01-740 7070

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| UK General Tst | 5½ | 52.24 | 53.50xd | 56.91 | -0.82 | 2.23 |
| Global Tst | 5½ | 44.84 | 45.37 | 48.21 | -0.96 | 0.35 |
| Recovery Tst | 5½ | 45.65 | 46.09 | 49.88 | -0.17 | 1.96 |

**CIBC Unit Tst Managers plc (1200)H**
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01-234 6000

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| Growth Fd Acc | 5 | 111.6 | 113.4 | 119.6 | -1.6 | [illegible] |

**CIS Unit Managers Ltd (1000)F**
PO Box 105, Manchester M60 0AH 061-837 5060

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| UK Growth | 6 | 100.2 | 101.7xd | 108.2 | -1.1 | 2.36 |
| UK Income | 6 | 101.5 | 103.0 | 109.6 | -0.7 | [illegible] |

**CS Fund Managers Limited (1600)H**
125 High Holborn, London WC1V 6PY 01-242 1148

[illegible]

**Pearl Unit Trusts Ltd (1000)H**
PO Box 309, Thorpe Wood, Peterborough PE3 6XD
Dealing: 0800 626477 Enquiries: 0733 67707

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| Growth | 5 | 112.1 | 114.6 | 120.6 | -1.1 | [illegible] |
| (Accum Units) | 5 | 178.7 | 182.7 | 192.2 | -1.9 | [illegible] |
| Income | 6 | 173.0 | 176.3 | 187.5 | -1.7 | [illegible] |
| Equity | 6 | 171.4 | 174.5 | 185.6 | -1.9 | 3.02 |
| (Accum Units) | 6 | 323.2 | 329.2 | 350.1 | -3.9 | 3.02 |
| Intl Equity | 6 | 168.9 | 171.1 | 182.0 | -2.7 | 1.92 |
| (Accum Units) | 6 | 177.6 | 179.9 | 191.3 | -2.9 | 1.92 |

**Schroder Unit Trusts Ltd—Contd.**

[illegible]

**PK English Trust Gr Mgd Ltd (1000)F**
12 Carthusian St, London EC1M 6EB 01-796 1200

| | Init Chrge | Canc Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| American* | 4 | 59.57 | 60.00 | 62.70 | ---- | 0.0 |
| Far Eastern* | 4 | 181.53 | 185.79 | 193.22 | ---- | 0.1 |
| Growth† | 4 | [illegible] | 187.78 | 198.79 | -3.70 | 3.1 |
| Income† | 4 | 137.29 | 139.01 | 148.07 | -3.30 | [illegible] |
| [illegible] | 4 | 74.74 | 76.64 | 79.71 | +0.94 | 0.3 |

† Dealing Day: Wed. *Dealing day: Thurs.

### GUIDE TO UNIT TRUST PRICING

**INITIAL CHARGES**
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

**OFFER PRICE**
The price at which units may be bought.

**BID PRICE**
The price at which units may be sold.

**CANCELLATION PRICE**
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

**TIME**
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ✦ - 0001 to 1100 hours; ◆ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ● - 1701 to midnight.

**HISTORIC PRICING**
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

**FORWARD PRICING**
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

**SCHEME PARTICULARS AND REPORTS**
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

[illegible]

# FT UNIT TRUST INFORMATION SERVICE

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**Thornton Unit Managers Ltd (1000)F**
33 Cavendish Sq., London W1M 7HF 01-493 7262
Dealing 01-493 8545

| | Init Charge | Canc. Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| American Opps | 5 | 46.77 | 47.51xd | 50.66 | -0.77 | 1.06 |
| (Accum Units) | 5 | 48.13 | 48.89xd | 52.14 | -0.78 | 1.06 |
| European Opps | 5 | 71.25 | 71.60 | 76.36 | -0.95 | 0.00 |
| (Accum Units) | 5 | 71.65 | 71.99 | 76.78 | -0.96 | 0.00 |
| Far Eastern Opps | 5 | 133.72 | 133.72 | 142.62 | -3.40 | 0.00 |
| (Accum Units) | 5 | 134.57 | 134.57 | 143.53 | -3.42 | 0.00 |
| Golden Opps | 5 | 45.90 | 46.16xd | 49.22 | +0.19 | 0.00 |
| (Accum Units) | 5 | 47.21 | 47.48xd | 50.63 | +0.19 | 0.00 |
| Intl Hi-Yield | 5 | 56.35 | 56.96xd | 60.75 | -1.21 | 4.53 |
| (Accum Units) | 5 | 61.39 | 61.83xd | 65.95 | -1.31 | 4.53 |
| Sanyo Japan Tst | 5 | 68.85 | 68.85 | 73.43 | -1.69 | 0.00 |
| (Accum Units) | 5 | 68.85 | 68.85 | 73.43 | -1.69 | 0.00 |
| Kangaroo | 5 | 32.31 | 32.31 | 34.46 | -0.20 | 1.51 |
| (Accum Units) | 5 | 32.50 | 32.50 | 34.65 | -0.20 | 1.51 |
| Oriental Income | 5 | 33.62 | 33.66 | 35.90 | -0.72 | 5.21 |
| (Accum Units) | 5 | 37.67 | 37.74 | 40.24 | -0.82 | 5.21 |
| Pacific Technology | 5 | 57.86 | 57.86 | 61.70 | -0.96 | 0.00 |
| (Accum Units) | 5 | 58.33 | 58.33 | 62.20 | -0.97 | 0.00 |
| Tiger | 5 | 146.34 | 146.34 | 156.09 | -4.15 | 0.71 |
| (Accum Units) | 5 | 148.62 | 148.62 | 158.52 | -4.22 | 0.71 |
| UK Hi-Yield | 5 | 43.59 | 43.59 | 46.49 | -0.33 | 4.92 |
| (Accum Units) | 5 | 49.84 | 49.84 | 53.16 | -0.37 | 4.92 |
| UK Opps | 5 | 55.51 | 58.04xd | 62.06 | -0.14 | 1.63 |
| (Accum Units) | 5 | 60.40 | 63.15xd | 67.53 | -0.15 | 1.63 |

**Three Counties Asset Mngmt Ltd (1430)F**
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034
Balanced Portfolio . 6 | 91.48 92.68 98.60 | -1.09 | 4.06

**Touche Remnant Unit Tst Mngt Ltd (1600)F**
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 01-248 1250
4 Hourly Pricing – 12 Noon Historic

[illegible]

**J. Rothschild Fund Managers Ltd**

**Stewart Ivory & Co Ltd**

**Thornton Unit Managers Ltd**

**Touche Remnant Unit Tst Mngt Ltd**

## INSURANCES

**AA Friendly Society**

**Abbey Life Assurance Co Ltd**

**Barclays Life Assur. Co Ltd**
252 Romford Road, London E7 01-534 5544

**Clerical Medical Investments Group**
Narrow Plain, Bristol BS2 0JH 0272-290566

**Clerical Medical Managed Funds Ltd**

**Equity & Law—Contd.**

**FS Assurance Limited**

**Guardian Royal Exchange—Contd.**

**Laurentian Life plc—Contd.**

**Legal & General (Unit Assur) Ltd**

**Merchant Investors Assurance Co Ltd—Contd.**

## OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

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| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **National Financial Management Corp PLC** | | | | |
| 72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539 | | | | |
| Life Funds | | | | |
| Managed Cautionary | 103.9 | 109.4 | -0.7 | - |
| Managed Growth | 139.6 | 147.0 | -0.9 | - |
| Managed Opportunity | 143.2 | 150.8 | -1.3 | - |
| NFMC Target Financial | 101.5 | 106.9 | -0.9 | - |
| Pension Funds | | | | |
| Managed Cautionary | 108.5 | 114.3 | -0.8 | - |
| Managed Growth | 143.7 | 151.3 | -1.2 | - |
| Managed Opportunity | 145.9 | 153.6 | -1.7 | - |
| NFMC Target Mngd Pen | 1491.0 | 1569.5 | -29.3 | - |
| **National Mutual Life** | | | | |
| The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422 | | | | |
| Managed Fund | 224.0 | 235.8 | -2.0 | - |
| Managed Prospect Fund | 188.0 | 197.9 | -1.7 | - |
| Pens Managed | 283.5 | 298.5 | -3.8 | - |
| Pens UK Equity | 340.1 | 358.1 | -4.2 | - |
| Pens Overseas Equity | 374.4 | 394.2 | -3.6 | - |
| Pens Property | 162.8 | 171.4 | +1.2 | - |
| Pens Fixed Interest | 172.0 | 181.1 | -5.4 | - |
| Pens Index Linked | 142.2 | 149.7 | -3.9 | - |
| Pens Deposit | 189.8 | 199.8 | +0.6 | - |
| Harvester & P.R.P. | | | | |
| UK Equity | 148.6 | 156.5 | -1.8 | - |
| Overseas Equity | 134.0 | 141.1 | -1.3 | - |
| Fixed Interest | 117.5 | 123.7 | -3.8 | - |
| Property | 135.4 | 142.6 | +1.0 | - |
| Index Linked | 129.2 | 136.0 | -3.5 | - |
| Deposit | 131.6 | 138.6 | +0.4 | - |
| Managed | 142.8 | 150.4 | -1.9 | - |
| With Profits | 135.0 | 142.2 | +0.3 | - |

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **Providence Capital Life Assc. Co Ltd - Contd.** | | | | |
| Property Initial | | 168.4 | | |
| Money Initial | | 78.7 | | |
| Special Market Initial | | 140.9 | | |
| Japan Equity Initial | | 110.1 | | |
| North American Initial | | 77.6 | | |
| Pacific Initial | | 79.5 | | |
| Technology Initial | | 105.7 | | |
| Nat Resources Initial | | 57.1 | | |
| European Initial | | 99.45 | | |
| Residential Prop Init | | 103.5 | | |
| Swiss Equities Initial | | 35.6 | | |
| Hong Kong Initial | | 45.2 | | |
| UK High Inc Eq Init | | 68.5 | | |
| Int Fixed Interest Init | | 48.3 | | |
| Int. Managed Init | | 54.9 | | |
| HIP Managed Init | | 113.3 | | |
| Broker Funds | | | | |
| High Performance | 74.7 | 78.7 | | |
| Towerhill Mngd Fd Acc | 52.1 | 54.9 | | |
| YRA Executive Fd | 91.5 | 96.5 | | |
| £ Global Growth Acc | 130.5 | 137.6 | | |
| £ High Income Money Acc | 111.4 | 117.7 | | |
| IM Balanced | | 54.6 | | |
| H F Speculator Fd | | 155.0 | | |
| PEP Acorn II | | 124.7 | | |
| PEP Cautionary | | 93.2 | | |
| AAFS Int Man Fund | | 120.4 | | |
| Andrews-Green Inv Port | | 104.2 | | |
| Individual Pension Funds | | | | |
| UK Equity Acc | 220.6 | 232.8 | | |
| UK Fixed Interest Acc | 175.7 | 185.4 | | |
| Intl Equities Acc | 241.9 | 255.2 | | |
| UK Managed Acc | 181.8 | 191.7 | | |
| Property Acc | 211.5 | 223.2 | | |

**National Provident Institution**

[illegible]

## OFFSHORE AND OVERSEAS

## MANAGEMENT SERVICES

## GUERNSEY (SIB RECOGNISED)

## JERSEY (SIB RECOGNISED)

## IoM (SIB RECOGNISED)

## LUXEMBOURG (SIB RECOGNISED)

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## JERSEY (**)

## SWITZERLAND (SIB RECOGNISED)

## CANADA (SIB RECOGNISED)

## GUERNSEY (**)

## ISLE OF MAN (**)

## LUXEMBOURG (**)

## DUBLIN (**)

## OFFSHORE INSURANCES

## OTHER OFFSHORE FUNDS

**Warburg Inv Mngmt (Isle of Man) Ltd**

| | | | | |
|---|---|---|---|---|
| Mercury 98-10 Trust (Sicav) | | | | |
| Dollar Fd BOPUPs | $10.63 | 10.64 | — | — |
| Dollar Fd OPUPs | $12.86 | 13.00 | — | — |
| Sterling Fd BOPUPs | £10.77 | 10.78 | — | — |
| Sterling Fd OPUPs | £13.78 | 13.92 | — | — |
| DM Fd BOPUPs | DM10.29 | 10.30 | — | — |
| DM Fd OPUPs | DM12.62 | 12.75 | — | — |
| Yen Fd BOPUPs | $8.30 | 8.31 | — | — |
| Yen Fd OPUPs | $12.72 | 12.85 | — | — |

**Wardley Investment Services Ltd**

| | | | | |
|---|---|---|---|---|
| Wardley S.E. Asia Tst | $12.89 | 13.67 | — | 0.00 |

**Wells Fargo U.S. IT Fund**

| | | | | |
|---|---|---|---|---|
| NAV Feb 20 | | $9.43 | — | — |

**Yamaichi Dynamic Mngt Co SA**

| | | | | |
|---|---|---|---|---|
| Advanced Tech | | $26.96 | — | — |

# Money Market Trust Funds

| | Gross | Net | Gr Equiv CAR | Int Cr |
|---|---|---|---|---|
| **Charities Aid Fndn Money Mngmt Co Ltd** | | | | |
| 48 Pembury Road, Tonbridge TN9 2JD | | | 0732 770114 | |
| Cafcash Deposit Fd | 14.78 | — | 15.62 | 3-mth |
| **The Charities Deposit Fund** | | | | |
| 2 Fore Street, London EC2Y 5AQ | | | 01-588 1815 | |
| Deposit | 14.80 | — | 15.64 | 3-Mth |
| **Gartmore Money Management Ltd** | | | | |
| 2-3 White Hart Yard, London SE1 1NX | | | 01-236 1425 | |
| Call Fnd | 14.67 | 11.48 | 15.75 | 6-Mth |
| 7-day Fund | 14.84 | 11.61 | 15.93 | 6 Mth |
| Special Fund | 14.77 | — | 16.25 | 3 Mth |
| Dollar | 7.00 | 5.48 | 7.45 | 3 Mth |

# Money Market Bank Accounts

| | Gross | Net | Gr Equiv CAR | Int Cr |
|---|---|---|---|---|
| **Aitken Hume Bank plc** | | | | |
| 30 City Road, EC1Y 2AY. | | | 01-638 6070 | |
| Treasury Acc | 13.90 | 10.96 | 14.64 | Qtr |
| Mth Int Chq £1,000-£4,999 | 13.50 | 10.56 | 14.77 | Mth |
| Mth Int Chq £5,000-£49,999 | 14.00 | 10.95 | 15.35 | Mth |
| Mth Int Chq £50,000+ | 14.50 | 11.35 | 15.94 | Mth |
| **Allied Trust Bank Ltd** | | | | |
| 97-101 Cannon St, London, EC4N 5AD | | | 01-629 6802 | |
| OMNA (£2,001 +) | 14.50 | 11.36 | 15.94 | Mth |
| HICA (£2,001 +) | 13.90 | 10.88 | 15.248 | Mth |
| **Bank of Ireland High Interest Cheque Acc** | | | | |
| 36 Queen St, EC4R 1BN | | | 01-625 7000 | |
| 2,000-9,999 | 13.750 | 10.750 | 14.922 | Qtr |
| £10,000+ | 14.058 | 11.000 | 15.283 | Qtr |
| **Bank of Scotland** | | | | |
| 38 Threadneedle St, EC2P 2EH. | | | 01 601 6746 | |
| Money Mkt Cheque Acc | 13.6 | 10.64 | 14.9 | Mth |
| **Barclays Capital Advantage Account** | | | | |
| 94 St Paul's Churchyard EC4M 8EH | | | 01-248 9155 | |

# CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

# Dollar down in nervous trading

NERVOUSNESS ABOUT the performance of equity markets and fear of rising inflation dominated a quiet foreign exchange market yesterday.

A fall of over 3 per cent in Tokyo share prices had as much impact on the dollar as the yen, as traders worried that Wall Street would suffer similar losses, but at the time of the London close US equities were showing relatively small losses and signs of recovery.

The dollar weakened, but dealers were generally satisfied by the currency's ability to shrug off bad news, including a larger than expected rise of 1.1 per cent in January US consumer prices. This was the largest monthly gain for more than 7½ years and took the year-on-year inflation rate up to 5.2 per cent from 4.6 per cent in December.

Although the US inflation outlook is bad in the short term, it is something of a double edged sword for the dollar, and could help underpin the US unit if it makes an easing of the Federal Reserve's monetary policy less likely.

The inflation situation is also likely to improve quite quickly, since it is largely the result of bad winter weather pushing up the use of energy and the cost of food.

Traders therefore took a cautious view of the prospects for the currency market, but generally marked dollar lower. At the London close it had fallen to DM1.6650 from DM1.6745; to SFr1.4745 from SFr1.4840; and to FFr5.6525 from FFr5.6875, but was little changed against the yen, easing to Y145.30 from Y145.35. On Bank of England figures the dollar's index declined to 66.8 from 67.0.

Sterling remained supported by high London interest rates and hopes that the British economy will avoid a recession in 1990. City economists viewed favourably news that UK Gross Domestic Product grew 0.6 per cent in the fourth quarter of last year, above forecasts of 0.4 per cent, and against 0.5 per cent in the third quarter.

The pound gained 1.10 cents to $1.7150. It also advanced to DM2.8550 from DM2.8525; to Y249.25 from Y247.75; and to FFr9.6950 from FFr9.6925, but was unchanged at SFr2.5275.

*According to the Bank of England sterling's index rose 0.2 to 90.2.*

The D-Mark tended to weaken against its partners in the European Monetary System, but was firmer against the dollar and yen. The West German currency eased to FFr3.3960 from FFr3.3965 at the London close, in spite of the fact that the French franc weakened overall in the EMS, and finished only slightly above the Belgian franc at the bottom of the system. The Italian lira was around a two-month high against the D-Mark.

The German unit declined to L740.77 at the Milan fixing, and finished in London at L741.15 against L741.40 on Tuesday. On the other hand the D-Mark rose to Y87.25 from Y86.80 against the yen, after the fall in Tokyo share prices, and on reduced speculation about a rise in Japanese interest rates.

### £ IN NEW YORK

| Feb.21 | Latest | Previous Close |
|---|---|---|
| £ Spot | [illegible] | [illegible] |
| 1 month | [illegible] | [illegible] |
| 3 months | [illegible] | [illegible] |
| 12 months | [illegible] | [illegible] |

Forward premiums and discounts apply to the US dollar

### STERLING INDEX

| | Feb.21 | Previous |
|---|---|---|
| 8.30 am | [illegible] | [illegible] |
| 9.00 am | [illegible] | [illegible] |
| 10.00 am | [illegible] | [illegible] |
| 11.00 am | [illegible] | [illegible] |
| Noon | [illegible] | [illegible] |
| 1.00 pm | [illegible] | [illegible] |
| 2.00 pm | [illegible] | [illegible] |
| 3.00 pm | [illegible] | [illegible] |
| 4.00 pm | [illegible] | [illegible] |

### CURRENCY RATES

| Feb.21 | Bank rate % | Special* Drawing Rights | European† Currency Unit |
|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] |

### CURRENCY MOVEMENTS

| Feb.21 | Bank of England Index | Morgan* Guaranty Changes % |
|---|---|---|
| [illegible] | [illegible] | [illegible] |

### OTHER CURRENCIES

| Feb.21 | £ | $ |
|---|---|---|
| [illegible] | [illegible] | [illegible] |
| S. Af (Cm) | 4.3385-4.3500 | 2.5330-2.5345 |
| S. Af (Fn) | 5.9300-6.0350 | 3.4600-3.5210 |
| Taiwan | 44.75-44.85 | 26.10-26.15 |
| U.A.E. | 6.2960-6.3080 | 3.6720-3.6730 |

*Selling rate

### EURO-CURRENCY INTEREST RATES

| Feb 21 | Short term | 7 Days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### POUND SPOT - FORWARD AGAINST THE POUND

| Feb.21 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

| Feb.21 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### EMS EUROPEAN CURRENCY UNIT RATES

| | Ecu central rates | Currency amounts against Ecu Feb.21 | % change from central rate | % change adjusted for divergence | Divergence limit % |
|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### EXCHANGE CROSS RATES

| Feb.21 | £ | $ | DM | Yen | F Fr. | S Fr. | H Fl. | Lira | C $ | B Fr. |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| C $ | 0.486 | 0.834 | 1.388 | 121.2 | 4.713 | 1.22[illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| B Fr. | 1.674 | 2.870 | 4.778 | 417.2 | 16.23 | 4.23[illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

## FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS · LIFFE US TREASURY BOND FUTURES OPTIONS · LIFFE BUND FUTURES OPTIONS · LIFFE £/$ OPTIONS · LIFFE EURODOLLAR OPTIONS · LIFFE SHORT STERLING OPTIONS

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT · US TREASURY BONDS 8% · 6% NOTIONAL GERMAN GOVT. BOND · 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND · THREE-MONTH STERLING · THREE-MONTH EURODOLLAR · THREE MONTH EUROMARK · THREE MONTH ECU · FT-SE 100 INDEX · POUND-$ (FOREIGN EXCHANGE)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% · U.S. TREASURY BILLS (IMM) · SWISS FRANC (IMM) · JAPANESE YEN (IMM) · DEUTSCHE MARK (IMM) · THREE-MONTH EURODOLLAR (IMM) · STANDARD & POORS 500 INDEX · PHILADELPHIA SE £/$ OPTIONS · 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES · OPTION ON LONG-TERM FRENCH BOND (MATIF) · THREE-MONTH PIBOR FUTURES (MATIF) · CAC-40 FUTURES (MATIF)

| | | | | | |
|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## MONEY MARKETS

# Rates hold steady

INTEREST RATES remained steady in London. Sentiment was buoyed by the strength of sterling on the foreign exchanges, but dealers do not expect any move in UK bank base rates until the second half of the year. Fixed period rates in Frankfurt were also little changed, but call money rose after the Bundesbank withdrew liquidity at this week's securities repurchase agreement tender. In Tokyo a senior official at the Finance Ministry dismissed speculation about a rise in the Bank of Japan's discount rate.

**UK clearing bank base lending rate 15 per cent from October 5**

In London three-month interbank was quoted at 15⅛-15 1/16 against 15 3/16-15⅛ per cent and in Frankfurt three-month money was unchanged at 8.325 per cent.

On Liffe short sterling finished towards the top of the day's narrow range, at 85.21 for June delivery compared with 85.15 previously. It opened firmer at 85.18, and traded between 85.15 and 85.22.

The Bank of England initially forecast a day-to-day credit shortage of £200m on the London money market, but revised this to £250m at noon, and back to £200m in the afternoon.

Total help of £199m was provided. The authorities did not operate in the market before lunch, but in the afternoon bought £149m bills outright, by way of £50m bank bills in band 1 at 14⅞ per cent and £99m bank bills in band 2 at 14¾ per cent. Late assistance of around £50m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £469m, with a rise in the note circulation absorbing £100m. These factors outweighed Exchequer transactions adding £200m to liquidity and bank balances above target of £165m.

In Frankfurt call money rose to 7.80 from 7.65 per cent after the Bundesbank drained a net DM9.5bn at a securities repurchase agreement tender. The central bank allocated DM10bn at this week's tender for 28-day funds, but an earlier pact of DM19.5bn expired yesterday. Rates paid at the tender ranged from 7.85 to 8.35 per cent, compared with 7.80 to 8.10 per cent at last week's similar agreement.

The drain of liquidity probably reflected high reserves held by the commercial banks. These averaged DM62.6bn for the first 19 days of February, against an expected requirement for the month of DM59.7bn.

### FT LONDON INTERBANK FIXING

| (11.00 a.m. Feb.21) | 3 months US dollars | | 6 months US Dollars | |
|---|---|---|---|---|
| | bid [illegible] | offer [illegible] | bid [illegible] | offer [illegible] |

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

### MONEY RATES

NEW YORK (Lunchtime) · Treasury Bills and Bonds

| | | | |
|---|---|---|---|
| Prime rate | [illegible] | [illegible] | [illegible] |
| Broker loan rate | [illegible] | [illegible] | [illegible] |
| Fed.funds | [illegible] | [illegible] | [illegible] |
| Fed.funds at intervention | [illegible] | [illegible] | [illegible] |

| Feb.21 | Overnight | One Month | Two Months | Three Months | Six Months | Lombard Intervention |
|---|---|---|---|---|---|---|
| Frankfurt | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Paris | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Zurich | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Amsterdam | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Tokyo | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Milan | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Brussels | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dublin | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### LONDON MONEY RATES

| Feb 21 | Overnight | 7 days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Interbank Offer | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Interbank Bid | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sterling CDs | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Local Authority Deps. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Local Authority Bonds | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Discount Mkt Deps. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Company Deposits | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Finance House Deposits | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Treasury Bills (Buy) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Bank Bills (Buy) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Fine Trade Bills (Buy) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dollar CDs | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| SDR Linked Dep. Offer | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| SDR Linked Dep. Bid | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| ECU Linked Dep. Offer | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| ECU Linked Dep. Bid | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

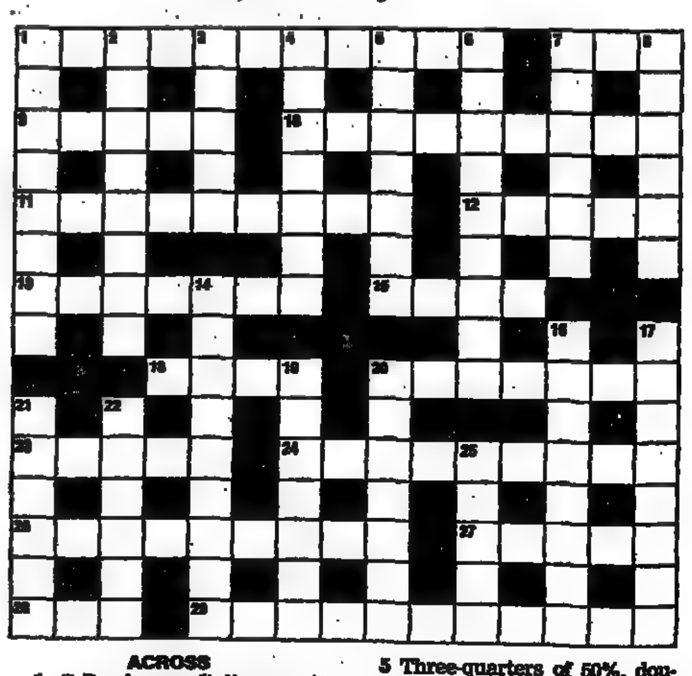
Treasury Bills (sell); one-month [illegible] per cent; three months [illegible] per cent; Bank Bills (sell); one-month [illegible] per cent; three months [illegible] per cent; Treasury Bills; Average tender rate of discount [illegible] p.c. ECGD Fixed Rate Sterling Export Finance. Make up day January 31, 1990. Agreed rates for period February 26 1990 to March 25, 1990, Scheme I: [illegible] p.c. Schemes II & III: [illegible] p.c. Reference rate for period [illegible] 1989 to January 31, 1990, Scheme IV&V: 15.199 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate [illegible] from February 1, 1990; Bank Deposit Rates for sums at seven days notice [illegible] per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month [illegible] per cent; one-three months [illegible] per cent; three-six months [illegible] per cent; six-nine months [illegible] per cent; nine-twelve months [illegible] per cent; Under £100,000 [illegible] per cent from Oct 9,1989. Deposits withdrawn for cash 5 per cent.



JOTTER PAD

## CROSSWORD

No.7,171 Set by FRESCA



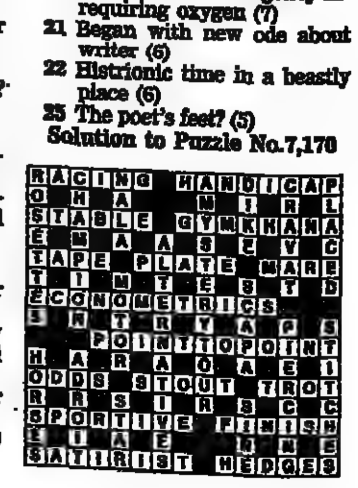
**ACROSS**

1, 7 Pam's gay Italian rendition of popular request (4,2,5,3)
9 Prophet portrayed in Roman Catholic memento (5)
10 Trendy girl putting Douglas, perhaps, in hospital (9)
11 Just a piano in warlike setting (9)
12 The fragrance of a city in Italy (5)
13 Look about: marry in the neighbourhood (7)
15 Surrounded by a lot of fish (4)
18 Frenzied though reassuring message in telegraphese (4)
20 Vespucci to his friends? (7)
23 Disappointment for waiter returning climber's aid (5)
24 Flower of Greek youth (9)
26 Place for society after dark? (5,4)
27 Opening for insolence (5)
28 Doctor Young starts wanting a drink (3)
29 Teaching music not acceptable: it can tail off – and did the wrong way! (11)

**DOWN**

1 Fragment of piano piece for publication? (8)
2 Pimento – special new delivery – about a pound (8)
3 At home with dog and bear (5)
4 Fish in a populous area has a bitter quality (7)
5 Three-quarters of 50%, doubled, plus one: the answer's cattle-fodder! (7)
6 A prestigious vehicle in original story (9)
7 Follow display with commercial content (6)
8 Time of circumpolar activity? (6)
14 A medal reconstructed with tin in layers (9)
16 One's peevish appearance in road and river (8)
17 Ramble about funny hats of course (5,3)
19 Excited type was up front (7)
20 Dull character in agency lift requiring oxygen (7)
21 Began with new ode about writer (6)
22 Histrionic time in a beastly place (6)
25 The poet's feet? (5)

Solution to Puzzle No.7,170



# WORLD STOCK MARKETS

## AUSTRIA

| February 21 | Sch | + or − |
|---|---|---|
| Austrian Airlines | 4,600 | −195 |
| Creditanstalt | 6,650 | −200 |
| Goesser | 7,300 | +120 |
| Interunfall | 29,500 | +200 |
| Jungbunzlauer | 18,350 | −50 |
| Laenderbank | 1,290 | |
| OeMV | 11,900 | −400 |
| Perlmooser | 2,220 | +20 |
| Reininghaus | 3,000 | −150 |
| Semperit | 189 | −1 |
| Steyr-Daimler | 155 | −6 |
| Veitscher Mag | 1,180 | −55 |
| Verbund | 496 | −14 |

## BELGIUM/LUXEMBOURG

| February 21 | Frs. | + or − |
|---|---|---|
| Arbed | 4,195 | −155 |
| B.B.L. | 2,995 | −5 |
| Bank Intl. a Lux | 15,560 | −50 |
| Banque Gen. Du Lux | 14,775 | |
| Banque Nat Belg | 35,000 | −250 |
| Bekaert B | 14,125 | −375 |
| Ciment CBR | 7,060 | −250 |
| Cobepa | [illegible] | −180 |
| Do. AFV 1 | [illegible] | −50 |
| Cockerill | 170 | −8 |
| Colruyt | 19,900 | −150 |
| Delhaize | 5,090 | [illegible] |
| EBES | 3,900 | −230 |
| Do. AFV 1 | 3,980 | −50 |
| Fabrique Nat | 352 | −20 |
| GIB Group | [illegible] | −32 |
| Do. AFV | [illegible] | |
| GBL(BruxL) | 3,880 | −100 |
| Do. AFV 1 | 3,875 | [illegible] |
| Do. AFV 2 | 3,870 | −70 |
| Gechem | 760 | −10 |

## FRANCE (continued)

| February 21 | Frs. | + or − |
|---|---|---|
| Auxiliare d'Ent | 975 | −14 |
| BIC | 648 | −11 |
| BSN | 688 | −22 |
| Bancaire Cie | 508 | +10 |
| BNP (Cert. Inv.) | 420 | −4.9 |
| Beghin-Say | 740 | −16 |
| Do. Certs | 515 | −15 |
| Bongrain | 2,720 | −72 |
| Bouygues | 538 | −11 |
| CGIP | 1,205 | −5 |
| CMB Packaging | 176.9 | −6.8 |
| Carrefour | 3,105 | +2 |
| Casino | 148 | −9 |
| Cetelem | 490 | +1 |
| Chargeurs | 1,052 | −13 |
| Ciments Fr. | 1,241 | −59 |
| Club Mediterranee | 673 | −19 |
| Cofimeg | 410 | −2 |
| Cogifi | 370 | −10 |
| CGE | 533 | −5 |
| Coparex | 370 | |
| Cred Foncier Fr | 1,249 | −2 |
| Credit National | 1,301 | −28 |
| Damart | 3,612 | −228 |
| Docks de France | 4,405 | −95 |
| Dollfus-Mieg | 566 | −16 |
| Damez S.A. | 809 | −3 |
| Eaux (Cie Gen) | 2,015 | −9 |
| Ecco | 489 | −6 |
| Electrofin're | 905 | −11 |
| Elf-Aquitaine | 575 | −8 |
| Do. Certs | 423.7 | −1.3 |
| Epeda-Bertrand | 1,285 | |
| Essilor | 2,585 | −115 |
| Eternit (Fin.) | 1,760 | −74 |
| Eurafrance | 2,380 | −30 |
| Eurocom | 1,750 | −55 |
| Euro Disneyland | 100.2 | −1.2 |
| Euromarche | 4,200 | −65 |

## INDICES

### NEW YORK

| DOW JONES | Feb 20 | Feb 16 | Feb 15 | Feb 14 | 1989/90 HIGH | 1989/90 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| Industrials | 2596.85 | 2635.59 | 2649.55 | 2624.32 | 2810.15 (2/1/90) | 2144.64 (3/1/89) | 2810.15 (2/1/90) | 41.22 (2/7/32) |
| Home Bonds | 91.09 | 91.46 | 91.55 | 91.35 | 94.15 (2/8/89) | 87.35 (23/3/89) | — | — |
| Transport | 1067.92 | 1079.30 | 1088.26 | 1083.21 | 1532.01 (5/9/89) | 959.95 (3/1/89) | 1532.01 (5/9/89) | 12.32 (8/7/32) |
| Utilities | 218.56 | 221.27 | 221.96 | 222.21 | 236.23 (2/1/90) | 181.84 (24/2/89) | 236.23 (2/1/90) | 10.50 (8/4/32) |

Day's High 2619.14 (2669.37) Low 2579.05 (2623.65)

### STANDARD AND POOR'S

| | Feb 20 | Feb 16 | Feb 15 | Feb 14 | 1989/90 HIGH | 1989/90 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| Composite ‡ | 327.99 | 332.72 | 334.90 | 332.01 | 359.80 (9/10/89) | 275.31 (3/1/89) | 359.80 (9/10/89) | 4.40 (1/6/32) |
| Industrials | 378.66 | 383.81 | 386.51 | 383.13 | 411.20 (2/1/90) | 318.66 (3/1/89) | 411.20 (2/1/90) | 3.62 (21/6/32) |
| Financial | 28.13 | 28.62 | 28.53 | [illegible] | 35.24 (9/10/89) | 24.30 (3/1/89) | 35.24 (9/10/89) | 8.64 (1/10/74) |
| NYSE Composite | 181.37 | 183.75 | 184.70 | 183.21 | 199.34 (9/10/89) | 154.98 (3/1/89) | 199.34 (9/10/89) | 4.46 (25/4/42) |
| Amex Mkt. Value | 354.86 | 358.77 | 359.80? | 358.76 | 397.03 (10/10/89) | 305.24 (3/1/89) | 397.03 (10/10/89) | 29.31 (9/12/72) |
| NASDAQ Composite | 425.83 | 429.01 | 429.61 | 426.56 | 485.73 (9/10/89) | [illegible] (3/1/89) | 485.73 (9/10/89) | 54.87 (31/10/72) |

| | Feb 9 | Feb 2 | Jan 26 | year ago (approx.) |
|---|---|---|---|---|
| Dow Industrial Div. Yield | 4.09 | 4.16 | 4.20 | 3.63 |

| | Feb 14 | Feb 7 | Jan 31 | year ago (approx.) |
|---|---|---|---|---|
| S & P Industrial div. yield | 3.12 | 3.09 | 3.13 | 3.13 |
| S & P Ind. P/E ratio | 14.21 | 14.23 | 14.04? | 13.63 |

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

*3pm prices February 21*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 12 Month High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| | | – A–A–A – | | | | | | | | |
| 37½ | 24⅝ | AAR | .48 | 1.5 | 18 | 365 | 31½ | 30⅞ | 31⅛ | + ⅛ |
| 9⅞ | 8½ | ACM p | 1.26 | 14. | | 398 | 9⅛ | 9⅛ | 9⅛ | – ⅛ |
| 11⅝ | 10½ | ACMIn | 1.26 | 11. | | 605 | 11⅛ | 11 | 11 | |
| 9⅞ | 8 | ACM M | n1.01 | 13. | | 374 | 8⅛ | d 7⅞ | 8 | |
| 12⅛ | 11½ | ACMMM | | | | 106 | 11⅝ | 11½ | 11⅝ | |
| 11½ | 10 | ACM Sc | 1.26 | 11. | | 1043 | 11⅛ | 10⅞ | 11⅛ | + ⅛ |
| 9⅜ | 8⅛ | ACMSp | 1.01 | 11. | | 678 | 9⅛ | 9 | 9 | – ¼ |
| 19⅜ | 11½ | AL Lab | .16 | .8 | 19 | 66 | 19⅛ | 18⅞ | 18⅞ | – ⅜ |
| 4⅝ | 3⅛ | AMCA | .12e | 3.7 | 41 | 31 | 3⅜ | 3⅛ | 3⅛ | |
| 6⅛ | 3⅜ | AM Intl | | | 8 | 366 | 3⅛ | 3⅜ | 3⅛ | |
| 23½ | 16⅞ | AM In pf | 2 | 12. | | 2 | 17⅛ | 17⅛ | 17⅛ | + ⅛ |
| 107¼ | 52½ | AMR | | | 6 | 5511 | 56⅞ | 55½ | 56½ | + ⅞ |
| 5½ | 3⅛ | ARX | | | | 47 | 3⅜ | 3⅛ | 3⅛ | – ⅛ |
| 72¼ | 39 | ASA | 3a | 5.4 | | 1643 | 58½ | 54¼ | 55¼ | – 3⅝ |
| 70⅜ | 50⅜ | AbtLab | 1.40 | 2.2 | 17 | 2811 | 64⅛ | 63¼ | 63¼ | – ⅝ |
| 17⅝ | 11⅛ | Abitibi g | .50 | | | 10 | 12⅜ | 12⅜ | 12⅜ | – ⅛ |
| 13 | 8⅞ | AcmeC | .40 | 4.3 | 10 | 42 | 9¼ | 9 | 9¼ | + ⅛ |
| 9¼ | 6 | AcmeE | .32 | 3.6 | 11 | 3 | 8⅞ | 8⅞ | 8⅞ | – ⅛ |
| 38½ | 27 | Acuson | | | 20 | 442 | 31⅞ | 31⅛ | 31⅞ | – ⅛ |
| 16½ | 12⅞ | AdaEx | 2.05e | 13. | | 110 | 15⅜ | 15⅛ | 15⅜ | – ⅛ |
| 16⅜ | 7¼ | Adobe | | | | 37 | 13⅛ | 13 | 13⅛ | |
| 20¼ | 16⅞ | Adob pf | 1.84 | 9.7 | | 2 | 18⅞ | 18⅞ | 18⅞ | |
| 21⅞ | 19⅞ | Adob pf | 2.40 | 11. | | 2 | 21 | 21 | 21 | – ⅛ |
| 10½ | 6⅞ | AMD | | | 5 | 4113 | 7⅜ | 7 | 7⅜ | + ¼ |
| 35 | 28⅞ | AMD pf | 3 | 10. | | 110 | 29⅞ | 29⅛ | 29⅛ | – ⅛ |
| 10⅛ | 5 | Advest | .16 | 3.0 | 7 | 131 | 5⅜ | 5⅜ | 5⅜ | – ⅛ |
| 62½ | 48½ | AetnLf | 2.76 | 5.4 | 9 | 1170 | 51⅛ | 50⅞ | 51 | + ⅛ |
| 14 | 9⅞ | AfilPb | .24 | 2.3 | | 230 | 10⅜ | 10⅜ | 10⅜ | – ⅛ |
| 25 | 16⅛ | Ahmans | .88 | 4.8 | 9 | 3469 | 18⅞ | 18⅛ | 18⅜ | – ⅛ |
| 3⅞ | 2 | Aileen | | | | 28 | 2⅛ | 2⅛ | 2⅛ | |
| [illegible] | | | | | | | | | | |


Continued on Page 45

# NYSE COMPOSITE PRICES

Continued from previous Page

| 12 Month High | Low | Stock | Div. | Yld.% | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 68¾ | 47½ | QuakrO | 1.40 | 2.9 | 19 | 2247 | 47¾ | d46¾ | 47½ | - ⅝ |
| 19⅛ | 12 | QuakSC | .80 | 6.7 | 27 | 751 | 12 | d11½ | 12 | - ⅛ |
| 19 | 11½ | Quanex | .40 | 3.2 | 6 | 140 | 12⅞ | 12⅝ | 12⅝ | - ⅛ |
| 31¼ | 22⅞ | Quanx pf2.25 | | 9.4 | | 40 | 24⅛ | 24⅛ | 24⅛ | - ⅛ |
| 68½ | 20¼ | Quantum | | | 2 | 969 | 22⅛ | 21⅞ | 21⅞ | - ⅛ |
| 13½ | 11 | QstVl | 1.20a | 9.4 | | 169 | 12⅞ | 12⅝ | 12⅝ | - ⅛ |
| 14⅞ | 9⅛ | QstVC | | | | 288 | 13⅛ | 13 | 13⅛ | - ⅛ |
| 39¾ | 31½ | Questar | 1.92 | 5.3 | 14 | 16 | 36⅝ | 36½ | 36½ | - ⅛ |
| 18¼ | 11⅞ | QkRelly | .28a | 2.3 | 10 | 46 | 12⅛ | 12 | 12 | - ⅛ |
| | | – R – R – R – | | | | | | | | |
| 11⅞ | 9⅝ | RAC | fn1.20e | 12. | | 327 | 10⅝ | 10½ | 10¼ | - ⅛ |
| 6½ | 1⅝ | RAC | .45e | 16. | 286 | 77 | 3 | 2⅞ | 2⅞ | - ⅛ |
| 10⅝ | 8⅞ | RLI Cp | .40 | 4.2 | 7 | 172 | 9⅞ | 9½ | 9⅝ | - ⅛ |
| 18¾ | 11¼ | ROC Fd.38e | | 2.8 | | 622 | 13⅞ | 13¼ | 13¾ | - ⅛ |
| 8¼ | 5⅛ | RPC | | | 17 | 51 | 6⅝ | 6½ | 6⅝ | + ⅛ |
| 6½ | 5⅛ | RPS | .81e | 14. | 6 | 177 | 6 | 5¾ | 5⅞ | |
| 85¾ | 47⅞ | Racal | .28e | .4 | 45 | 1349 | 65½ | 64¼ | 64½ | -1⅛ |
| 5⅝ | 2⅛ | Radica n | | | | 2 | 2⅝ | 2⅛ | 2⅛ | - ⅛ |
| 101½ | 77⅞ | RalsPur | 1.80 | 2.3 | 18 | 1736 | 81¼ | 80⅛ | 81⅛ | + ⅛ |
| 6⅝ | 5⅛ | RangrO | | | 29 | 1416 | 6⅛ | 6 | 6⅛ | + ⅛ |
| 39¼ | 28 | Raycm | .32 | 1.2 | 36 | 1021 | 26¼ | d25⅞ | 26⅛ | |
| 19⅛ | 13¼ | RJamF | .24 | 1.6 | 6 | 20 | 16⅛ | 16½ | 16½ | - ⅛ |
| 28½ | 18 | Rayonr | 3.69 | 14. | 7 | 284 | 25 | 24⅝ | 24⅞ | |
| 3¾ | ½ | vjReytc | | | | 1 | 2⅛ | 2¼ | 2¼ | |
| 85 | 60 | Raythn | 2.20 | 3.6 | 8 | 746 | 62¼ | 61 | 61⅝ | - ⅞ |
| 22½ | 21⅛ | RdrDg n | | | | 6355 | 21⅞ | d21 | 21⅛ | + ⅛ |
| 5 | 15-16 | RdgB n | | | | 275 | 3½ | 3¼ | 3¼ | - ⅛ |
| 17 | 14⅛ | REIT | 1.32 | 8.7 | 10 | 50 | 14¼ | 14⅛ | 14⅛ | |
| 16⅛ | 13½ | RitRet | 1.72 | 12. | 9 | 2 | 14⅛ | 14¼ | 14¼ | - ⅛ |
| 12⅞ | 5½ | RecnEq | | | | 97 | 6⅛ | 6 | 6⅛ | + ⅛ |
| 20 | 12⅝ | Reebok | .30 | 1.7 | 12 | 8479 | 18⅛ | 16⅛ | 17¾ | + ⅛ |
| 16 | 8⅞ | Reece | .16e | 1.7 | | 45 | 8⅞ | 8⅝ | 8⅞ | + ⅛ |
| ½ | 7-64 | Regal | | | | 13 | 11-32 | 11-32 | 11-32 | + 1-32 |
| 9¾ | 6⅝ | RegFn | .29e | 3.5 | | 18 | 8⅛ | 8¼ | 8¼ | |

# AMEX COMPOSITE PRICES

3pm prices February 21

# NASDAQ NATIONAL MARKET

3pm prices February 21

| Stock | Div. | P/E | Sales 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|---|
| Wolohn | .20b | 9 | 112 | 15¾ | 15½ | 15¾ | - ⅛ |
| WrnEx h | | | 1063 | 13½ | 12⅞ | 13½ | + ⅝ |
| Worthg | .56 | 16 | 467 | 20¾ | d20¼ | 20⅝ | + ⅛ |
| Wyman | .80 | | 324 | 14¼ | 13⅞ | 13⅞ | - ⅛ |
| | | –X – Y – Z– | | | | | |
| XL Dta s | | 4 | 459 | 7⅛ | 6⅛ | 7 | |
| XOMA | | | 1462 | 19¼ | 18½ | 19¼ | |
| Xicor | | 198 | 438 | 3 | d 2⅝ | 2¾ | - ⅛ |
| Xyvsn | | | 141 | 2⅛ | 2⅛ | 2⅛ | - ⅛ |
| YanEnS | .78e | 13 | 51 | 21½ | 20¾ | 20¾ | - ⅛ |
| YelowF | .76 | 36 | 738 | 23⅞ | 22¾ | 23⅝ | - ⅛ |
| YorkRs | | 16 | 134 | 9⅛ | 8½ | 9 | + ⅛ |
| ZionUt | 1.44 | 11 | 36 | 28⅝ | 28½ | 28⅝ | + ⅛ |

AMERICA

# Dow rebounds from Japanese aftershock

## Wall Street

AFTERSHOCKS from the tumbling stock market in Tokyo pushed US equities sharply lower on Wall Street. But selling pressure was rapidly exhausted and the market recouped some of its early losses, *writes Anatole Kaletsky in New York.*

The Dow Jones Industrial Average fell more than 30 points in the first half hour of trading in a nervous reflex reaction to the 3 per cent plunge in Tokyo over the previous night. The early fall added to the sting of the 38.76 point decline which the market suffered on Tuesday.

But bargain-hunters soon emerged, both in the equity market on Wall Street and in the Chicago stock index futures pits. As a result the Dow rebounded quickly to show a loss of only about 10 points after two hours of trading. The market then settled into a trading range of 2,575 to 2,590 on the Dow.

At 2 pm the Dow was 8.56 points down at 2,588.29, while broader indices, including the Standard & Poors 500, showed somewhat smaller falls in proportional terms. Volume was not particularly heavy with only 106m shares changing hands. Declining shares outnumbered gainers by about five to two.

One reason for the stockmarket's relatively calm response to the bearish signals from Tokyo was the improvement in bond prices around the world. US bond prices rose slightly along the whole yield curve, but traders were even more cheered by the much bigger gains recorded in West Germany and Japan. The good news from abroad appeared to offset the bearish impact of a worse than expected consumer price figures.

The Labor Department reported that January consumer prices increased by 1.1 per cent, while prices excluding food and energy advanced by 0.6 per cent.

Both figures were considerably higher than market expectations, but were generally dismissed as a temporary aberration. The Treasury's benchmark long bond rose by ¼ to 98⅞, a price at which it yielded 8.63 per cent.

Another midly encouraging sign for equity investors was that numerous blue chip stocks were able to resist the market's general downward trend. IBM rose $1 to $104 in heavy trading in spite of a broad weakening in the technology sector. The general bearishness in computer stocks was partly due to a newspaper report that Digital Equipment might announce its first ever quarterly loss in the current quarter. DEC's shares fell $1⅞ to $72⅞. Another loser in the technology sector was AT&T which fell $⅞ to $38¾.

Energy stocks generally resisted declines. Trading was particularly in Schlumberger, the oilfield service company. The shares advanced $⅞ to $50 with of over one million shares traded by early afternoon.

Among special situations stocks, Avon Products gained $⅞ to $31⅞ after announcing the sale of its Japanese businesses. Kimberley-Clark fell $2⅞ to $64⅞ after the chairman told analysts that margins could be below the 1989 level this year.

## Canada

NERVOUSNESS over Japanese interest rates pushed Toronto stocks as much 32 points down in early trading but by noon the market had recovered some of its losses and the composite index stood 18.9 points down at 3,673.4 on volume of 15.4m shares.

SHL Systemhouse dropped C$⅞ to C$6⅞ after falling more than three dollars on Tuesday. The computer company said that second quarter earnings would not meet analysts' expectations.

EUROPE

# Bourse declines decelerate after mild domestic bonds recovery

BOND market recoveries, and a relatively steady response by Wall Street to Tokyo's fall gave a degree of support to depressed bourses yesterday, *writes Our Markets Staff.*

FRANKFURT moved from sharp declines in the pre-market, when dealers saw Japanese sellers of BMW and Siemens, to an afternoon recovery which brought bargain hunting in Volkswagen and others.

The spur was a mild recovery in domestic bonds, reflected in a decline in the average bond yield from 9.15 to 9.04 per cent. After a 10.03 fall to 755.22 in the FAZ index at midsession, the DAX closed the day at 1,807.19, down 16.62; after hours, Volkswagen was around DM551.50, fractionally higher than Tuesday's close, and Siemens was in similar shape at DM748.50.

Falls of DM7.50 to DM877 in Daimler, and DM6.50 to DM774.50 in Deutsche Bank were typical of the declines in official trading hours. Happier conclusions were seen by BASF, the chemicals group, which dipped only 10 pfg to DM298.40 as it announced the takeover of Bioresearch, an Italian drug company; and Viag (energy, aluminium and chemicals), steady at DM395 on a 14 per cent increase in 1989 net income.

PARIS was lifted off its day's lows by Wall Street's relatively steady response to the sharp fall in Tokyo. The CAC 40 index finished 16.37 down at 1,803.79, after falling to 1,783.69 on interest rate worries. Trading remained nervous, in spite of a rally in domestic bonds.

Eurotunnel rose again in the day's most active trading, adding 35 centimes to FFr38.05 after the signing of a new construction agreement by the Channel Tunnel's contractors late on Tuesday and the appointment of a new project chief executive.

Rhône-Poulenc's certificates lost FFr10 to FFr590; the chemical company reported net profits up only 4 per cent in 1989 and warned that earnings would fall this year.

AMSTERDAM also ended above its lows, as Wall Street seemed to stabilise. The CBS tendency index closed 1.1 points, or 1 per cent, down at 106.3, after falling to 105.5.

The nervousness of the market meant that Royal Dutch lost Fl 1 to Fl 143.60 in spite of reporting a 34 per cent gain in 1989 net profits. Tulip Computers fell Fl 2.20 to Fl 31.30 after announcing a 30 per cent profits decline.

MILAN ended weaker, but above the day's lows as the Comit index closed 5.37 down at 662.31. Falls in foreign markets, tension inside the Christian Democrat party and uncertainty about the future of the chemicals company, Enimont, all weighed on prices.

Banks went against the trend, on expectations that proposed reforms in Italy's savings tax regime, which include a measure to reduce taxes on interest income from 30 to 20 per cent, will favour the sector.

OSLO declined as the all-share index dropped 7.14 to 603.16. The banks index, however, rose slightly as Norway's three largest banks reported improved profits for 1989. Den norske Creditbank added NKr2.5 to NKr89.

STOCKHOLM closed lower as the growing political crisis drove investors from the market. The Affärsvärlden General index fell 6.5 to 1,133.5.

Volvo, which has experienced sharp falls lately, went against the trend, rebounding SKr10 to SKr375 on low volume.

COPENHAGEN rose as the domestic bond market recovered, with the bourse index up 2.09 at 365.49.

# Zurich gives Ciba-Geigy move muted welcome

CIBA-GEIGY'S decision to open its registered stock to foreigners had a relatively muted impact yesterday, but brokers and analysts were sure that the longer term effect for Swiss shares would be positive, *writes William Dullforce in Geneva.*

Influenced principally by the interest rate outlook and weakness in leading world markets, the composite Swiss index fell 0.8 per cent to 1,107.6. However, within that, the index for bearer shares fell by 1.4 per cent and registered shares by only 0.4 per cent.

The index for non-voting participation certificates actually rose by 0.4 per cent. Ciba-Geigy added a refinement yesterday to Nestlé's initiative on opening registered shares to foreigners 15 months ago, by offering to convert its participation certificates into registered stock.

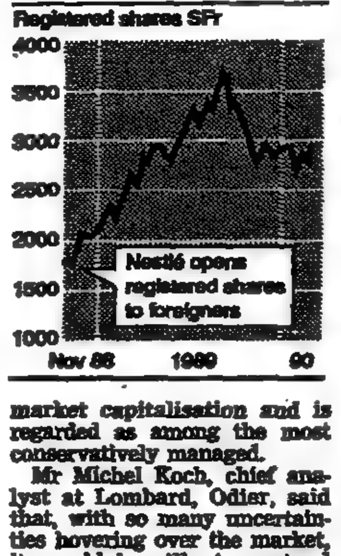
Mr Martin Ebner, whose BZ Bank was the biggest trader on Zurich last year, said that the next few weeks could be very exciting. Other companies were now bound to follow Nestlé, Switzerland's biggest concern, and Ciba-Geigy, which is the third largest company by its market capitalisation and is regarded as among the most conservatively managed.

Mr Michel Koch, chief analyst at Lombard, Odier, said that, with so many uncertainties hovering over the market, it would be silly to pretend that Ciba-Geigy's decision would immediately instil life into the bourse, but the abandonment of discrimination against foreigners by another leading company must eventually reinforce the market.

Ciba-Geigy registered and certificates rose SFr90 and SFr250 to SFr2,980 and SFr2,980 respectively, as the bearers fell SFr340 to SFr3,270.

Investors also bought the non-voting stock of companies that might be expected to offer conversion into registered shares. Winterthur's participation certificates, for example, climbed by 2.5 per cent, while its bearers fell 6.1 per cent.

Ciba-Geigy
Registered shares SFr




ASIA PACIFIC

# Nikkei plunges 3 per cent as gloom becomes alarm

## Tokyo

MERE GLOOM gave way to alarm yesterday, as the Nikkei average suffered its third biggest setback in history, plunging 1,161.19, or 3 per cent, to a 1990 low of 35,734.33, *writes Michiyo Nakamoto in Tokyo.*

Yesterday's fall, which left the Nikkei 10 per cent below its record of 38,915.87 set at the end of last year, was the largest the Tokyo market has seen since it nosedived in the wake of Wall Street's collapse on Black Monday in 1987.

The drop on Wall Street overnight, another sharp drop on the bond market and concern about an imminent increase in the official discount rate left institutions with no excuse to hold on. In addition, arbitrageurs sold to unwind their futures positions.

The Nikkei moved between a high of 36,885.99 and a low of 35,694.59. Declines won 987, against 70 advances with 81 unchanged. Turnover rose from 335m to 473m shares, the Topix index of all listed shares fell 75.87 to 2,620.21 and, in London, the ISE/Nikkei 50 index lost 2.19 to 1,932.91.

While the bond market recovered in later trading, on the feeling that long-term interest rates may have peaked, there was a growing conviction that there is little hope of an early fall in interest rates. Equities, which have been suffering a severe loss of confidence, saw an even more uncertain future.

"Market sentiment has been battered," said Mr Tetsuya Fukami at Shearson Lehman Hutton. The failure of the market to respond positively to any good news, including the election results and the easing of margin trading requirements announced on Tuesday, showed how negative investor sentiment had become.

The declines on Wall Street and in European markets also triggered fears of a downward spiral effect in equity markets worldwide. The consensus was that it would take some time for equities to recover.

Rumours also spread of sharp downward revisions in company results. Electricals, which had been favoured on good earnings prospects, lost heavily. Sharp dropped Y80 to Y1,780 on rumours that it would revise its earnings downwards. It topped the actives list with 24.6m shares. Hitachi followed with 11.1m shares and lost Y40 to Y1,480.

However, there were milder views. Mr Morihiko Ida, at Morgan Stanley Investment Advisory, saw the market shock in a historical context: possibly a one-off reaction and even a precursor to a rally.

Last year's rally in Japanese shares, he pointed out, was based on a scenario of falling interest rates in the US leading to lower rates in Japan; comments made on Tuesday by the US Federal Reserve chairman, Mr Alan Greenspan, confirmed fears that the US was not going to see an easing of monetary policy in the immediate future.

But there was little doubt among pundits in Tokyo that a stock market recovery would come. The yen showed signs of a slight recovery, said Mr Ida, and bonds have stabilised. In contrast to the condition on the market at the time of the 1987 crash, sell offers yesterday found buyers and deals were concluded. "I think we can expect a technical rebound, even tomorrow," he added.

Osaka saw a relatively moderate 286.71 drop in the OSE average to 38,368.31. Volume rose to 71.9m shares.

## Roundup

TUESDAY'S fall on Wall Street, and yesterday's plunge in Tokyo depressed most of the other markets in the Pacific Basin.

HONG KONG went into free-fall in the afternoon. The Hang Seng index closed down 118.63 to 2,862.27, in the biggest one-day fall since October 16 last year. Turnover was HK$1.56bn compared with Tuesday's HK$1.74bn.

Bullishness toward local equities had swelled in recent weeks, on the belief that shares in the colony are far cheaper than those in neighbouring markets; on Tuesday it closed at its best level since the Tiananmen Square massacre in Peking on June 4.

However, yesterday's fall gave back half of the gains made this month. The property sector took the brunt of the decline, its sub-index shedding 5.3 per cent.

SINGAPORE also took its lead from Tokyo, the Straits Times index falling 50.98 to 1,544.42. Singapore-based blue chips, financials and shipyards were hardest hit. Malaysian stocks also suffered, but to a lesser degree, in very active trading in the over-the-counter market in Singapore, and in Kuala Lumpur. The KUALA LUMPUR stock index fell 18.73 to 603.47.

AUSTRALIA rallied from intraday lows, as the Australian Treasurer, Mr Paul Keating, said that current economic conditions justified sustainable falls in interest rates. The All Ordinaries fell 6.2 to 1,624.2. Trading was light, with a volume of 145m shares including Tuesday's block sale of 67m in the ANZ banking group.

ANZ rose 12 cents to A$5.81 as Westpac Banking's acquisition of the 7.5 per cent stake renewed speculation of further bank mergers. National Australia Bank, which last year was touted as a possible merger partner for ANZ, firmed 2 cents to A$6.52 and Adelaide Steamship, which sold the ANZ stake, rose 4 cents to A$5.36.

NEW ZEALAND continued to fall as the Barclays Index plunged 39.69 to 1,818.05. Volume stayed light at 7.6m shares. Brierley Investments saw 1.8m shares traded and fell 7 cents to NZ$1.65, while its international unit, Industrial Equity, fell 6 cents to NZ$2.05.

TAIWAN turned broadly lower, partly on profit-taking following Tuesday's sharp gains. The weighted index, which rose 476.29 on Tuesday, declined 296.65, finishing at 11,975.29.

JAKARTA bucked the downward trend. The stock index rose 8.97 to 486.36.

## SOUTH AFRICA

JOHANNESBURG was mixed to easier as traders opted for caution, following steep falls on overseas markets and mounting fears of higher global interest rates. News that the UK would lift the ban on new investment in South Africa, together with a firmer gold price, gave some support.

# Belgium remains in the doldrums

## Lucy Kellaway examines Europe's worst performing market this year

THE BELGIAN stock market has followed a weak 1989, in which it undeperformed most of the rest of Europe, with a dismal start to the 1990s. Its drop of 10 per cent this year makes it one of the worst performers in the world.

"I can't remember when the Belgian stock market felt so marginal," grumbled a London stockbroker, who makes a living selling Belgian shares.

Given the strength of the economic background, that might seem surprising. The Belgian economy grew by about 4.5 per cent last year in real terms; this year it is expected to grow a further 3.5 per cent. Belgium's dreaded budget deficit – the highest in Europe as a percentage of GNP and the country's biggest economic headache – is at last improving. The present corporate results season is bringing in average rises of 23 per cent, helped by the cyclical recovery in the steel sector and by the remarkable turnaround at Société Générale de Belgique, *the large holding company.*

The malaise appears to be related to the perceived attractions of Belgium's neighbours, rather than to Brussels' lack of them. The West German market has risen 6 per cent this year on the grounds that its companies will enjoy a bonanza from rebuilding East Germany.

In some cases, investors have been selling Belgian shares in order to increase exposure to Germany while keeping their overall European weightings intact.

Another problem has been the sickness of the Belgian bond market, which has not only fallen in sympathy with the German market, but has had additional problems of its own.

Since the beginning of the year, Belgian bond yields have risen by almost a full percentage point to 10.7 per cent, partly induced by a change in Belgian tax law, under which big institutional holders are no longer exempt from paying capital gains on bonds held for five years.

Other minor tax changes have also altered the balance between stocks and bonds and, if nothing else, have confused investors. The most publicised has been the reduction of withholding tax on bonds from 25 per cent to 10 per cent, due to come into force with the new bond issue next month. As there is no similar move for shares, the market may have fallen in disappointment, although analysts believe such hopes were unrealistic.

"It was cloud cuckoo land to expect withholding tax to be reduced on shares; the Government simply couldn't afford it," says Mr Sebastian Scotney of Dillon Read.

Changes in the corporate tax system have also served to confuse. The Government is to close some of the favourite loopholes, although at the same time it plans to reduce the corporate tax rate from 41 per cent to 37 per cent by 1991. It has warned that the net effect will be to squeeze another BFr10bn ($288m) out of the corporate coffers. That may sound a lot, but in a market that is capitalised at BFr2.5 trillion (million million), it is small beer.

**TRADING VOLUMES have been surprisingly high on the Belgian market this year. However, the reported figures give only a partial idea of what is going on, as much of the business is conducted off the market to cut dealing costs.**

**According to a recent study by a British institution, charges in Belgium are the highest in Europe. It costs more to deal on the Brussels bourse than in Milan or Madrid, and far more than in the more sophisticated centres of London, Paris or Amsterdam.**

**Yesterday, trading was fairly lively in the wake of falls on foreign stock markets, and the cash market index lost 148.29, or 2.6 per cent, to 5,673.91. FN, the arms, sporting goods and aeronautics group, fell BFr18 to BFr352 after saying that it would make a heavy loss.**

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS | TUESDAY FEBRUARY 20 1990 | | | | | | MONDAY FEBRUARY 19 1990 | | | DOLLAR INDEX | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Figures in parentheses show number of stocks per grouping | US Dollar Index | Day's Change % | Pound Sterling Index | Local Currency Index | Day's change % local currency | Gross Div. Yield | US Dollar Index | Pound Sterling Index | Local Currency Index | 1989/90 High | 1989/90 Low | Year ago (approx) |
| Australia (84) | 144.88 | −0.8 | 126.05 | 126.28 | −1.0 | 5.31 | 146.02 | 127.16 | 127.61 | 160.41 | 128.28 | 136.31 |
| Austria (19) | 263.23 | −0.6 | 229.03 | 229.21 | −0.6 | 1.16 | 264.71 | 230.52 | 230.60 | 264.71 | 92.84 | 98.15 |
| Belgium (61) | 139.11 | −2.0 | 121.03 | 120.24 | −1.9 | 4.63 | 142.01 | 123.67 | 122.58 | 160.02 | 125.88 | 134.87 |
| Canada (120) | 138.76 | −1.2 | 120.73 | 120.73 | −1.1 | 3.41 | 140.45 | 122.31 | 122.04 | 154.17 | 124.67 | 134.09 |
| Denmark (36) | 249.38 | −0.5 | 216.97 | 218.65 | −0.6 | 1.47 | 250.57 | 218.20 | 220.24 | 280.82 | 165.35 | 158.54 |
| Finland (26) | 149.87 | +0.2 | 130.39 | 128.92 | +0.1 | 2.40 | 149.52 | 130.21 | 123.79 | 159.16 | 118.83 | 145.73 |
| France (125) | 144.73 | −0.7 | 125.92 | 129.12 | −0.9 | 2.91 | 145.77 | 126.94 | 130.28 | 157.97 | 112.57 | 117.64 |
| West Germany (96) | 128.75 | −2.5 | 112.02 | 112.09 | −2.7 | 1.89 | 132.10 | 115.04 | 115.17 | 137.01 | 79.58 | 84.87 |
| Hong Kong (48) | 122.00 | +0.5 | 106.15 | 122.31 | +0.5 | 4.69 | 121.37 | 105.69 | 121.66 | 140.33 | 86.41 | 131.72 |
| Ireland (17) | 188.35 | −1.1 | 163.88 | 167.71 | −1.0 | 2.59 | 190.40 | 165.81 | 169.42 | 198.57 | 125.00 | 144.46 |
| Italy (96) | 95.79 | −1.1 | 83.34 | 88.81 | −1.3 | 2.69 | 96.88 | 84.37 | 89.94 | 102.11 | 74.97 | 81.65 |
| Japan (455) | 180.43 | −1.4 | 156.98 | 165.77 | −0.9 | 0.49 | 183.00 | 159.36 | 167.27 | 200.11 | 164.22 | 190.27 |
| Malaysia (36) | 245.32 | +0.2 | 213.44 | 255.19 | +0.2 | 2.08 | 244.72 | 213.11 | 254.71 | 245.32 | 149.55 | 157.64 |
| Mexico (13) | 375.00 | +0.2 | 326.27 | 1118.50 | +0.2 | 0.46 | 374.40 | 326.04 | 1116.71 | 375.00 | 163.22 | 162.16 |
| Netherland (43) | 135.78 | −1.3 | 118.14 | 116.98 | −1.4 | 4.60 | 137.51 | 119.75 | 118.66 | 145.98 | 110.63 | 114.71 |
| New Zealand (18) | 66.38 | −0.4 | 57.75 | 59.53 | −0.7 | 5.78 | 66.67 | 58.05 | 59.95 | 88.18 | 62.64 | 70.61 |
| Norway (24) | 237.42 | −1.6 | 206.57 | 208.42 | −1.7 | 1.46 | 241.39 | 210.21 | 211.98 | 241.98 | 139.92 | 170.78 |
| Singapore (26) | 197.62 | +0.3 | 171.94 | 169.29 | +0.2 | 1.72 | 196.99 | 171.54 | 168.94 | 199.38 | 124.57 | 141.77 |
| South Africa (60) | 216.05 | +0.2 | 187.98 | 184.63 | +2.3 | 3.38 | 215.59 | 187.74 | 181.12 | 251.39 | 115.36 | 127.00 |
| Spain (43) | 153.51 | −1.2 | 133.56 | 125.83 | −1.2 | 4.17 | 155.38 | 135.31 | 127.30 | 186.75 | 145.14 | 143.65 |
| Sweden (35) | 179.23 | −1.5 | 165.94 | 162.39 | −1.8 | 2.25 | 182.03 | 158.51 | 165.32 | 206.95 | 138.45 | 182.81 |
| Switzerland (62) | 96.70 | −0.9 | 84.14 | 88.97 | −1.2 | 2.01 | 97.59 | 84.99 | 90.06 | 99.12 | 87.81 | 77.28 |
| United Kingdom (306) | 158.01 | −0.8 | 137.48 | 137.48 | −0.8 | 4.64 | 159.24 | 138.67 | 138.67 | 164.31 | 133.28 | 150.87 |
| USA (542) | 132.78 | −1.4 | 115.52 | 132.78 | −1.4 | 3.58 | 134.62 | 117.23 | 134.62 | 146.20 | 112.13 | 120.51 |
| Europe (989) | 140.87 | −1.2 | 122.58 | 122.99 | −1.3 | 3.50 | 142.59 | 124.17 | 124.64 | 146.66 | 112.63 | 119.76 |
| Nordic (121) | 188.57 | −1.0 | 164.06 | 161.26 | −1.2 | 1.85 | 190.52 | 165.91 | 163.22 | 201.89 | 137.95 | 147.63 |
| Pacific Basin (667) | 176.90 | −1.3 | 153.92 | 162.92 | −0.9 | 0.74 | 179.30 | 156.14 | 163.94 | 194.72 | 160.44 | 191.06 |
| Euro–Pacific (1656) | 162.70 | −1.3 | 141.56 | 146.77 | −1.0 | 1.71 | 164.82 | 143.53 | 148.29 | 174.18 | 141.56 | 162.63 |
| North America (662) | 133.04 | −1.4 | 115.75 | 132.02 | −1.4 | 3.57 | 134.88 | 117.46 | 133.84 | 146.66 | 112.79 | 121.23 |
| Europe Ex. UK (683) | 129.15 | −1.5 | 112.37 | 114.01 | −1.8 | 2.74 | 131.11 | 114.17 | 115.89 | 134.73 | 96.30 | 100.71 |
| Pacific Ex. Japan (212) | 134.37 | −0.2 | 116.91 | 121.53 | −0.4 | 4.69 | 134.70 | 117.30 | 122.02 | 140.05 | 111.93 | 126.73 |
| World Ex. US (1849) | 162.51 | −1.3 | 141.39 | 146.37 | −1.0 | 1.78 | 164.60 | 143.34 | 147.82 | 173.77 | 141.49 | 161.19 |
| World Ex. UK (2085) | 150.21 | −1.4 | 130.69 | 142.20 | −1.1 | 2.09 | 152.27 | 132.60 | 143.82 | 162.00 | 136.98 | 145.02 |
| World Ex. So. Af. (2331) | 150.49 | −1.3 | 130.94 | 141.55 | −1.1 | 2.32 | 152.45 | 132.79 | 143.17 | 161.84 | 136.57 | 145.82 |
| World Ex. Japan (1936) | 137.16 | −1.2 | 119.33 | 129.39 | −1.2 | 3.58 | 138.86 | 120.92 | 131.02 | 145.52 | 114.51 | 121.10 |
| The World Index (2391) | 150.89 | −1.3 | 131.28 | 141.71 | −1.1 | 2.33 | 152.87 | 133.13 | 143.29 | 162.05 | 136.68 | 145.61 |


Latest prices were unavailable for this edition. Trading on the Helsinki exchange has been reduced following a banking employees dispute.

SECTION III
FINANCIAL TIMES SURVEY

Western Europe's motor industry saw record sales in 1989. In spite of this there is an increasing sense of uncertainty in the sector as Japanese car makers turn their attention to Europe. **John Griffiths** looks at the implications of the threat from the East

The Rover 800 (top), Ford Granada Scorpio and Vauxhall Carlton (bottom): Their long-standing monopoly of the executive car market is about to end as French and particularly Japanese competitors make dramatic headway

# Vehicle Fleet Management

## Rivals step up sales battle

TO THE surprise and pleasure of Western Europe's motor industry, 1989 provided record sales – for the fifth year in a row. Instead of the long-feared downturn in the new car market, some 13.48m units were shifted.

In the past few months sales have begun to falter; but not by much, and certainly not enough to explain the increasing sense of uncertainty pervading the industry.

Slowly, but inexorably, car markets and makers are being drawn towards uncharted waters. Where these will eventually lead is of fundamental concern not just to manufacturers, but to the business community which each year buys or leases several million of the industry's products.

The events unfolding have implications for both the absolute price levels of vehicles in EC countries and for the costs and manner of their operation.

Most fundamental is that, with their North American factories now on course to be producing more than 2m cars a year by the time Europe's single EC market becomes formalised in 1993, Japanese car manufacturers are now seriously turning their attention to Western Europe, and the UK in particular.

- By the end of 1992, Nissan plans to be building 200,000 medium and small cars at its Sunderland plant, and is expected to double this level of output from the mid to late 1990s.
- Toyota is formally committed to making 100,000 cars a year near Derby by 1995, rising to 200,000 two years later. But few in the industry believe that Toyota will be content with this level of output and most expect a further doubling well before the end of the decade.
- Honda is well advanced with plans to build 100,000 cars a year at its 360-acre site in Swindon, in southern England. But even though Rover Group, in which Honda is taking a 20 per cent stake, will also be receiving at least 40,000 Honda-badged cars from the production lines of its British partner, there are similarly few who believe that Honda's ambitions are confined to 100,000 cars a year for Swindon.

Mitsubishi and Mazda have also indicated their intention to set up plants in Western Europe; Suzuki is expected shortly to expand its Spanish four-wheel-drive operations at Land Rover Santana to include its Swift small hatchback range; and Daihatsu may well attack the West European market from a manufacturing base inside Eastern Europe.

For good measure, as far as the UK is concerned, it is more than likely that Peugeot, flushed by the success of its UK-built 405 upper-medium saloon range, will announce expanded production at its facilities at Ryton, near Coventry in the fairly near future.

Yet all this extra capacity is emerging at a time when the world is fast approaching the capability to build at least 8m more vehicles than buyers will actually want, according to Mr Harold Poling, chief executive of Ford in the US. Some analysts have suggested that even Mr Poling is being conservative, and that the true figure may be nearer 12m, with around 3m of the total in Western Europe by the early 1990s. In any event, in a speech earlier this year, Mr Poling described the industry as approaching "the commercial equivalent of war."

It has already claimed casualties – the purchase of Jaguar by Ford and Saab's submission to General Motors. Increasingly, speculation is turning to which of the volume car makers will be forced to forfeit its independence as the "war" progresses.

This prospect may dismay the manufacturers. But it may not be entirely unwelcome to the business car operators.

For them, there is implicit in the intensifying struggle among the manufacturers the prospect of a slowing in the rate of vehicle price increases, an upgrading of vehicle quality as indigenous European manufacturers increase their efforts to match Japanese quality levels – which few now dispute set the world standard – and improvements in warranties and after-sales standards, as the European producers seek to retain customer loyalty.

Manufacturers in the UK, for example, have for several years consistently raised new car prices by well in excess of the rate of overall inflation – a trend which should become increasingly difficult to sustain as the Japanese producers come on stream.

This, however, raises the question of whether European business vehicle operators will relent to any great extent on what has previously been a considerable antipathy to "buying Japanese."

Their decisions will have a substantial impact on vehicle markets, for in spite of the widespread assumption that the UK has a particularly high proportion of company-owned vehicles, that is not the case. Company car operation in continental Europe is much more widespread than many think.

Research undertaken on behalf of Lex Service, one of the UK's largest vehicle retailing and distribution groups, provides strong evidence that, while a higher proportion of cars – 16 per cent – are company-owned in the UK than anywhere else in Europe, Holland is not far behind with 15 per cent, while West Germany's 13 per cent means a numerically higher business car total than in the UK because of its larger overall market.

Chauvinism among buyers in France and Italy, where Japanese car sales have in any case been severely restricted, is widely expected to endure after the creation of the single EC market and the theoretically free movement of UK-built Japanese cars in volume across their borders.

But the research commissioned for Lex indicates that this antipathy might be about to recede in the UK – a highly important business car market within Europe, with more than 50 per cent of sales going to fleets.

Half of the 2,000 companies interviewed for the research have an actual ban on Japanese vehicles. Of these, however, the research found that one-third said they would view Japanese cars more favourably if they had associations with the UK or UK companies.

Furthermore, over half the companies with a preference for British or European-badged cars said they would look more favourably at Japanese cars with British links.

"Over the next two years, there are likely to be significant changes in attitude towards Japanese cars," the research concludes.

Competition is already producing some unexpected stresses and strains between indigenous European producers in some markets.

For example, while the launch of the new Fiesta last year helped Ford achieve a slight market share gain in Europe overall – its 11.6 per cent share comparing with General Motors' 11 per cent – in the UK it is finding itself under growing pressure from GM's Vauxhall subsidiary.

Long-used to a near-30 per cent share of the UK market overall, Ford's share was cut to 22 per cent in the first month of this year, only five percentage points ahead of Vauxhall – a performance in which the recent Ford strike played no real role.

More disconcerting for Ford, however, was the manner in which Vauxhall reduced by eight percentage points Ford's leadership in the fleet sector.

Every Ford model except the Granada executive car lost fleet sector penetration last year, while every Vauxhall model except the Carlton executive car gained market share. It now looks almost certain that Vauxhall's Cavalier will take over in the full year the title of best-selling car that it wrested from Ford's Sierra in January.

This struggle has been taking place against the background of a fall-off in new car sales in the UK so far this year – also after five successive years of records – of approaching 10 per cent; a figure which, says Mr Derek Whittacker, head of the Inchcape Group's motor activities, "understates how bad underlying conditions are in the UK trade, especially among private buyers, because of high interest rates and the Government's squeeze."

In all the above circumstances, fears are starting to grow that there could be a return to the "car wars" of the early to mid-1980s, in which discounting ran rife and dealers often relied entirely on sales-related bonuses to retain some profits from new car sales.

The "car wars," in the end, helped no-one. They did keep the "metal" moving as volume manufacturers struggled to fill expensively-installed capacity – but at the expense of profitability for both manufacturers and dealers, and the undermining of the used car market in the form of collapsing resale values. One of the lessons that should have been learned then – that up-front discounts merely mean lower resale values so that there is little or no net gain – appears in danger of being forgotten.

Nowhere are developments being watched with more concern than in the vehicle contract hire and leasing industry, said to be the fastest-growing sector in the business car market, even though much independent research regularly indicates that most companies prefer to buy and manage their own fleets.

The specialist contract hire and leasing business is overwhelmingly dependent for viability on correctly forecasting the resale, or residual, values of the cars of which it is lessor.

It looks as if a significant number of companies may have misjudged the decline in resale values that is now under way, and leading industry figures are starting to talk of an impending shake-out of some of the less expert players.

Mr Neil Pykett, managing director of Cowie Interleasing, which operates a fleet of about 50,000 leased vehicles, predicts that "the next nine months are going to be very interesting."

IN THIS SURVEY

John Griffiths looks at trends and prospects for the company car market

# Impervious to the threat of tax rises

NEXT month's UK Budget is awaited with some trepidation by a business community bracing itself for yet another round of tax increases on the company car. The total tax burden on each employee using one has already increased almost ten-fold since 1980.

Yet, according to the authors of the 1990 edition of Monks Guide to Company Car Policy*, even if the fears are realised, many employees operating the estimated 3m company cars on the UK's roads "will continue to prefer a fully-serviced and expensed company car to providing their own."

And for employers, the guide's joint authors suggest, "the administrative burdens of a (private) car allowance plan, some elements of which may be tax-free, can be greater than the administration of a company car fleet."

The guide concludes, "we do not expect higher tax rates to eliminate the company car. In most European countries the company car is a standard benefit at senior levels in industry and we do not expect the UK to be the exception to European practice."

Indeed, according to Mr Neil Pykett, managing director of the Cowie Interleasing Group, which operates a fleet of 52,000 vehicles in the UK, the increasing skills shortage, particularly in the south-east, is leading to company cars being made available further down the management hierarchy than in the past.

**The guide says, 'we do not expect higher tax rates to eliminate the company car'**

This year's Monks Guide, the tenth, was prepared after a detailed survey of the company car policies of 194 concerns, ranging from small computer companies to major industrial and commercial groups like BAT, Cadbury Schweppes, Midland Bank, Scottish & Newcastle Breweries, Unipart and Woolworth.

It concludes that companies will undertake a further, modest expansion of their car fleets in 1990, as happened in 1989 in spite of 30 per cent higher tax burden than in the previous year. Last year produced an increase of about 5 per cent in the average fleet size of companies surveyed, to 516 from 492.

Mileage – usually a minimum of 10,000 annually – continues to be the prime determinant of which employees receive a "business need" car, as opposed to a "perk car" awarded for company status.

Salary levels, meanwhile, continue to be the main factor in the allocation of "status" cars, with the average salary level at which a company car is provided automatically rising at roughly the rate of pay inflation last year.

The median level among companies surveyed rose from £17,501-£18,000 in the previous year's guide to £19,000-£19,501 in the current edition, although there was a very wide variation, with the "entry level" salary in smaller companies often very much lower.

The survey evidence is that "user chooser" policies – allowing company drivers to choose which car they drive from a list of vehicles – remain popular, with the number of companies offering no choice in a very small minority. For directors, the trend is to no restrictions, with 69 per cent of surveyed companies allowed the car of their choice subject only to capital cost or other cash limit. Thirty per cent of companies allowed similar freedom to sales representatives, although, obviously, subject to much tighter cash constraints.

Policies towards the provision of free fuel for private use also appear to have changed little compared with 1988, more than 40 per cent of sale representatives continuing to enjoy the benefit, and three-quarters of directors.

**Companies will undertake a further, modest expansion of their car fleets in 1990**

The survey concludes that while even a stiff increase in tax penalties is unlikely to make an employee want to hand his company car back in favour of an allowance to run his own, the Government needs to change the structure of company car taxation.

Those whose car is provided primarily as a "perk" should pay a larger share of taxes, according to guide authors Mr Tony Vernon-Harcourt and Mr Norman Donkin. The current structure is penalising "very harshly" employees who cover a high business but low private mileage, they insist, whereas "the low business but high private mileage user is comparatively lightly taxed."

If the scale charges for these benefits are increased without sub-dividing the scale which imposes the same tax burden on drivers covering between 2,500 and 18,000 miles a year on business, "we shall have a situation where those who most need a car for their job will find a company-provided car least attractive," conclude the authors.

**Mileage is the prime determinant of which employees receive a "business need" car**

The typical essential user covers about 10,000 miles on business and 10,000 miles privately, the guide points out.

Despite the heavy promotional spending and "hard sell" tactics of the specialist contract hire and leasing industry, the guide's statistics continue to show that more than 60 per cent of company cars are bought outright by the operating company, with 21 per cent on contract hire and 18 per cent on other forms of lease. Once again, however, there is considerable variation depending on size, with 44 per cent of vehicles in medium-sized and smaller companies surveyed – those with annual turnovers of £200m or less – being operated on contract hire.

Among the other trends noted by the survey is one towards longer time periods and higher mileages before replacement, with periods of more than three years and mileages of 50,000-plus increasingly commonplace.

Looking to the future, the survey found that almost 38 per cent of the 194 companies questioned said that they planned to increase spending on their company cars.

In many respects, the Company Secretary's Review of Company Car Schemes, which this year reached its conclusions after surveying 914 companies, detects similar trends to the Monks Guide authors.

It found half the companies surveyed offered employees an element of choice in their cars, with very few now restricting purchases to makes or models normally regarded as British.

Vehicle age, the review concludes, remains the major factor determining replacement intervals, with a mileage criterion often used in combination. It found a combination of three year and 60,000 miles to be the most wide spread replacement benchmarks.

The review also found that companies were keeping a slightly tighter vigil over how company cars were used. For example, it found that one quarter of companies surveyed now imposed penalties on employees for failing properly to look after their cars. Only about one half, however, were shown to keep a close track of running costs by means of detailed records.

More than two-thirds covered all the private motoring costs of their employees.

The past year, the review found, has also witnessed a substantial shift away from companies organising garage servicing to delegating employees to organise their own.

One "wrinkle" observed by the review in the company car sector provides confirmation, if any were needed, of just how emotive a subject cars can be.

The 1.6 litre Sierra remains a widely purchased car by companies – even though the 1.8 litre version costs exactly the same and depreciates less.

The reason?

Simply to preserve the company "pecking order" under which the badge on the boot of the car directly denotes status.

*Monks Guide to Company Car Policy, Monks Publications, Debden Green, Saffron Walden CB11 3LX. £70.*

**HOW COMPANY CARS ARE ACQUIRED**

| | Total | | SIZE OF FLEET 6-9 | | 10-19 | | 20-49 | | 50-99 | | 100+ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 |
| Base for percentages | 936 % | 914 % | 132 % | 133 % | 229 % | 205 % | 276 % | 285 % | 125 % | 106 % | 153 % | 167 % |
| Outright purchase | 62 | 61 | 58 | 59 | 58 | 59 | 64 | 61 | 66 | 63 | 65 | 65 |
| Purchase with minimum trade-in value | 6 | 6 | 12 | 7 | 7 | 7 | 4 | 6 | 1 | | 5 | 4 |
| Hire purchase | 15 | 15 | 23 | 23 | 22 | 20 | 12 | 16 | 11 | 7 | 4 | 5 |
| Contract hire | 38 | 37 | 29 | 29 | 33 | 31 | 45 | 39 | 36 | 37 | 43 | 46 |
| Finance leasing | 12 | 11 | 7 | 8 | 13 | 12 | 12 | 11 | 10 | 11 | 14 | 11 |
| Ad hoc hiring | 1 | * | - | 1 | - | - | 1 | * | 1 | - | 1 | - |

Source: Tolley Company Secretary's Review

**PREFERRED MANUFACTURERS – 1989 and 1990***

| | 1990 % | 1989 % | Change % |
|---|---|---|---|
| **Chairman** | | | |
| Jaguar | 37 | 45 | −8 |
| Rolls-Royce | 3 | 7 | −4 |
| Mercedes | 14 | 8 | +6 |
| BMW | 8 | 4 | +4 |
| **Chief executive** | | | |
| Jaguar | 42 | 40 | +2 |
| Rover | 7 | 9 | −2 |
| Mercedes | 12 | 12 | - |
| Ford | 11 | 9 | +2 |
| BMW | 7 | 10 | −3 |
| **Other directors** | | | |
| Jaguar | 17 | 22 | −5 |
| Rover | 14 | 15 | −1 |
| Ford | 28 | 27 | +1 |
| Mercedes | 10 | 7 | +3 |
| BMW | 8 | 7 | +1 |
| **Senior manager** | | | |
| Ford | 35 | 45 | −10 |
| BMW | 9 | 3 | +6 |
| Rover | 13 | 14 | −1 |
| Vauxhall | 14 | 15 | −1 |
| **Area sales manager** | | | |
| Ford | 52 | 52 | −1 |
| Vauxhall | 21 | 25 | +1 |
| Rover | 14 | 13 | +1 |
| **Sales representative** | | | |
| Ford | 46 | 47 | −1 |
| Vauxhall | 29 | 28 | +1 |
| Rover | 13 | 14 | −1 |
| **Minimum "perk" car** | | | |
| Ford | 47 | 52 | −5 |
| Vauxhall | 28 | 25 | +3 |
| Rover | 11 | 13 | −2 |

*Surveyed companies

Source: Monks Guide to Company Car Policy

Kevin Done on the UK scene

# Fall in output likely

COMPETITION HAS become fierce in the UK car market in recent months as car makers battle to hold up sales in a declining market.

Marketing campaigns are being intensified, and the car makers are resorting to increasingly costly devices to support sales and maintain market share.

With interest rates sticking stubbornly at high levels, car producers are continuing to cushion buyers from the full impact with an array of cheap finance packages, including zero interest rate offers. At the same time, dealer incentive programmes are proliferating and car makers are seeking to gain a competitive edge by increasing the specification of models without equivalent price increases.

According to the latest forecast from the Society of Motor Manufacturers and Traders, UK new car sales are expected to fall by close to 8 per cent to 2.125m this year from the record level of 2.301m reached in 1989.

The SMMT forecasts have been revised downwards since last autumn, because of the deterioration in the UK economic outlook. Some car makers are more pessimistic, forecasting a fall of over 10 per cent this year in new car demand.

After record sales for five years in succession from 1985 to 1989, new car demand is expected to remain flat in 1991 after the decline this year.

The weaker demand in the home market this year is expected to result in a drop in UK car output to 1.215m compared with the 1.299m achieved last year, which was the highest level since 1977.

Car production is expected to rise again in 1991, however, to around 1.325m, helped by growing exports including increasing output from Nissan's car plant in Sunderland, which began exporting cars to Europe in late 1988.

The SMMT is confident that UK car output will continue to expand strongly in the coming decade to reach 2m units a year in the second half of the 1990s, boosted by production from the Japanese "transplants" currently under development by Toyota and Honda as well as Nissan.

New car sales fell by 6.27 per cent in January to 206,393 from 220,197 a year. New car demand has now been lower than a year ago for three months in succession from November to January and for four of the last six months, marking a clear decline from the record sales achieved in the first eight months of 1989.

Demand falls appear to have come mainly from private buyers affected by high mortgage rates rather than from corporate customers.

Ford continues as the dominant UK market leader with sales of 608,617 and a share of 26.5 per cent in 1989. It again took the top three places in the sales league with its Escort, Sierra and Fiesta, but its ambitions for restoring its share to the 30 per cent achieved earlier in the 1980s have been thwarted, and Vauxhall, the UK subsidiary of General Motors of the US, is slowly closing the gap from second place.

Vauxhall is now enjoying a considerable product-led success, and last year ousted Rover Group from second place in the UK car market for the first time.

A surge in sales of Vauxhall's Cavalier range was mainly responsible also for a sharp reduction in Ford's lead in the UK fleet sector of companies buying more than 25 cars last year. Ford's share fell by 4 percentage points to 40.8 per cent, while Vauxhall's jumped 4 points to 28.0. The sector is very important for the volume car producers, accounting for 674,406 sales last year or 29.5 per cent of the total market.

HOLLAND

# Perked by fiscal reform

THE DUTCH rarely get the luxury of a company car, but they may enjoy it more as a result of tax reform and companies' back-to-basics trend.

At the beginning of this year the most sweeping tax reform package in Dutch post-war history took effect, cutting the top marginal rate from 72 per cent to 60 per cent and simplifying the complex income brackets. Employees must pay taxes on mileage reimbursement above 44 Dutch cents a kilometre, making it more attractive in many cases to drive a leased car, where costs are covered by the employer.

Employees with company cars are taxed on 20 per cent of the original catalogue price, even for second-hand autos. For example, a Fl 30,000 car would mean additional taxable income of Fl 6,000, or Fl 250 a month taxed at 50 per cent – an average rate. That is cheaper than owning a car, according to Mr Freddy Hollander, head of Lease Plan Nederland, the Dutch subsidiary of Lease Plan Holding of the Netherlands. With a European fleet of 100,000 vehicles, Lease Plan claims to lead the European market in vehicle leasing, fleet management and contract car hire.

Dutch companies – like their counterparts elsewhere – are increasingly returning to their core activities and spinning off peripheral operations, such as transport, to specialised vendors. As a result, the vehicle leasing business has climbed at around 20 per cent a year. In spite of the roaring growth, however, environmental concern could brake some of the momentum. It was a dispute over car commuting that largely brought down the centre-right coalition Government of Christian Democrats and Liberals in May 1989. The right-of-centre Liberals withdrew their support for the coalition in protest at the planned abolition of a tax break for commuters, including those using cars.

Aside from the environment, other factors such as social ethics, corporate culture and the fiscal regime suggest that the company car in the Netherlands will never assume the hallowed place it enjoys in the UK. The Dutch business community is so sensitive about company cars that it will hardly talk about practices and policies. Among the few big companies that will publicly acknowledge providing cars are KLM, Philips, Heineken and Volmac.

KLM, for example, provides leased company cars for about 150 managers in the top three layers of management in the Netherlands, and has done so since 1982. Recently a few salesmen who travel a lot got cars thanks to the tax reforms. The computer industry is known for being more generous than most with company cars. So many employees must travel that leasing vehicles is usually more sensible than compensating mileage, it says.

Volmac, the rapidly growing Dutch software house, provides cars for around 1,000 of its 1,500 Netherlands employees. Because of the tax reforms, Volmac is reviewing its policy.

While the Dutch vehicle leasing market is relatively small, it is considered sophisticated by those in the industry. Lease Plan, for example, returns net profits to clients or absorbs losses depending on whether actual costs are lower or higher than agreed in an annual contract. Of the 5m passenger cars on Dutch roads today, about 1.6m receive cost reimbursement, says Mr Hollander of Lease Plan. Of those 1.6m, about 400,000 cars are on "very regular reimbursement," comprising 220,000 company-owned cars and 180,000 leased ones.

That pool of leased cars will widen to as many as 400,000 in three to four years, Mr Hollander believes. Lease Plan Nederland maintains a fleet of 40,000 vehicles. The lease market absorbs about 12.5 per cent of the 550,000 new cars sold each year in the Netherlands, according to Mr Hollander, one of the few experts with a good overview of the Dutch scene. That will jump to 20 per cent in three or four years, he predicts.

Company cars have never really caught on in the Netherlands the way they have in the UK for several reasons. One is a visceral aversion – some say grounded in Calvinism – to borrowing, whether it is credit or leasing. A second reason is a corporate culture that is egalitarian, keeps pay differentials narrow and eschews ostentatious rewards for some employees and not for others. Dutch managers are among the lowest paid in Europe, although they receive very generous social benefits such as pensions.

Until this year all employees received either financial compensation for commuting – by car, train or bicycle – from their employers, or a tax deduction. As from May 1, that deduction will be capped.

Dutch companies insist on more choice of autos for their employees than their German or UK counterparts, according to Mr Hollander. With no indigenous auto industry, it is easier to do that, he adds.

But Mr Hollander claims the Dutch are less make-conscious than the Germans. Opel, Ford and Volkswagen account for 55-60 per cent of the lease market, with the price averaging Fl 30,000-45,000.

A potential obstacle to the vehicle fleet management market is the growing sensitivity to environmental pollution. The Dutch are poised to adopt this year one of the most comprehensive and ambitious national environmental clean-up plans in the world.

Pollution across the board – air, water and soil – would be slashed by up to 90 per cent by the year 2010, including a 75 reduction in nitrogen oxide and 10 per cent cut in carbon dioxide from cars. A carbon dioxide tax designed to suck in Fl 150m was imposed on January 1.

Use of private cars will be heavily discouraged through higher taxes and fees, while public transport will be encouraged. Critics such as Mr A J te Veldhuis of the Liberal Party claim the motorist is being made a scapegoat, because cars account for only 9 per cent of air pollution but would generate 47 per cent of revenue to combat air pollution and acidification.

Mr Hollander believes the National Environment Plan poses no threat to the car lease industry because "the demand for mobility will always be present. People won't stop stop driving but they will use more park and ride facilities."

**Laura Raun**
*Amsterdam*

The Japanese are coming: company car markets are hard to penetrate but the old order is changing

# Europeans prepare for battle of the badge

EUROPEAN CAR makers still dominate their national fleet and company car markets, but their grip is likely to be loosened progressively during the 1990s, as Japanese car makers expand their local European production base.

European corporations have traditionally favoured nationally-badged cars, a choice that has sometimes been reinforced by bouts of national lobbying – usually triggered by a balance of payments crisis – such as the "Buy British" campaign of the late 1970s in the UK.

While national company car markets are more difficult for importers to penetrate than the retail markets, the old order is changing quickly, not only as the Japanese vehicle makers establish a European production base, but also as the definition of a British car or a European car becomes increasingly blurred.

The most popular fleet car in the UK in recent years has been the Ford Sierra, an easy choice for companies wanting to "buy British", as the Sierra used to be assembled at Ford's Dagenham plant to the east of London.

Last year, however, Ford decided on the gradual transfer of all UK Sierra assembly to its main Sierra plant at Genk in Belgium. From this autumn, all Sierras sold in the UK will be produced in Belgium, although some main components, such as the engine, will often come from the UK. It has always been the case that the Ford Granados sold in the UK have been produced in West Germany.

General Motors (Vauxhall in the UK and Opel in continental European markets) also has a widely-spread European production base. Most Vauxhall Cavaliers, the company's most successful fleet car which has begun to outsell the much older Ford Sierra in recent months, are assembled at Luton in the UK. Some of the performance models are produced in continental Europe, however, and all major components such as engine and transmission are imported from continental plants.

All Vauxhall Novas are built in Spain, while Vauxhall's larger executive cars, the Senator and Carlton, are assembled in West Germany.

Peugeot 405s for the UK market are assembled at the French group's Ryton, Coventry plant, but the British subsidiary struggles to come far over a 60 per cent UK local content, and engines, transmissions and body panels are imported from France.

**Nissan hopes its Primera, (above) due to be launched in Europe in late 1990 and built in England, will help it carve out a larger share of the company car market. It will compete with Ford's Sierra (above, right) and the Vauxhall Cavalier (right)**

The problem of defining what is meant by a "domestic" car has become even more formidable in the US, where the consumer is faced with far more choice and where the development of a local production base by the Japanese vehicle makers has reached a much more advanced stage.

According to Mr Michael Losh, general manager of General Motors' Oldsmobile division, "the lines between what were once known as 'domestic' and 'import' cars *have become blurred*. Now there are the 'captives', the 'transplants' and a long list of products that are the offspring of international joint ventures.

"Who can blame the consumer for asking: 'Is a Honda from Ohio more American than a Chrysler from Canada . . . or a Mercury from Mexico?'" As one extreme example GM sells as the Pontiac Le Mans in the US a car which is essentially the Opel Kadett/Vauxhall Astra, designed and engineered in West Germany and assembled in South Korea by Daewoo Motor, GM's 50 per cent-owned associate company.

Japanese vehicle makers are developing a capacity in North America to produce 2m vehicles a year by the end of 1991. As Mr Losh remarks, "soon there will be more Nissans from Tennessee, Toyotas from California and Kentucky, Hondas from Ohio, Isuzus and Subarus from Indiana, Mitsubishis from Illinois and Mazdas from Michigan."

At the same time, the issue of how to define the "local content" of a car is one of the most complex trade questions currently facing the motor industry.

Depending on what formula is selected, it is perfectly possible for one car maker to claim that its products are exceeding 70 per cent local content, while its rivals can counter-claim that the local content is at best around 60 per cent.

What is clear is that while company car buyers' understanding of these issues is becoming more sophisticated, many are still lagging behind the complex reality of today's global car industry.

The last report by Lex Vehicle Leasing on company cars still talks of fleet operators' British-only buying policies and EC-buying policies. Although such definitions can increasingly be called into question, they are still clung to by many company car buyers.

Such buyers would be hard-pushed to define, however – except at an emotional level – whether a Nissan Bluebird assembled in Sunderland with a claimed 70 per cent local content (*UK Government definition*), designed and engineered in Japan, with an engine assembled in Sunderland from components partly bought in the European Community and partly imported from Japan, is more or less British than a Ford Sierra, designed and engineered partly in the UK and partly in West Germany, and assembled in Belgium with an engine built in the UK.

How does such a Bluebird or Sierra match up on Buy British criteria against a Vauxhall Cavalier, assembled in the UK, but designed and engineered in West Germany with engines and transmissions from either Austria, West Germany, Japan or Australia – depending on model – *and with body panels* imported from West Germany?

In spite of the blurred lines of origin, patriotism is still apparently a potent factor for company car buyers.

The Lex report says that there has been "a slight relaxation" in fleet buyers' policies on the perceived origin of their purchases with more companies now favouring European Community cars, as opposed to British only.

"There has been a particular change in larger companies which were previously strongly disposed towards British cars and which are now more likely to favour EC cars in general," it says.

**Defining a domestic car is more formidable in the US, where there is far more choice and the development of a local production base by the Japanese is more advanced**

Lex claims that organisations whose main *method of acquisition* is contract hire are more inclined to choose EC cars than those using other methods. Around 25 per cent of those using contract hire favour British cars only.

According to Lex, very few companies have a policy of favouring Japanese cars and half the organisations it interviewed had a policy against Japanese cars.

Of the organisations whose policy excluded the Japanese, a third would view their cars more favourably if they had associations with the UK or UK companies.

The remaining two-thirds still would not select Japanese cars. At the same time, over half of the organisations with a preference for British or European-badged cars said they would look more favourably at Japanese cars with associations in Britain.

The latest Monks Guide to Company Car Policy shows that companies become more restrictive in terms of setting *limitations based on origin, the* further down the management scale employees are allowed company cars.

In its survey 59 per cent of company chairmen were allowed to choose any model regardless of origin, while this fell to 36 per cent for senior managers and only 22 per cent for sales representatives.

The only Japanese car maker that already has a European car assembly plant in operation is Nissan Motor, which started production at Sunderland in north-east England in 1986.

Nissan UK, the privately-owned company which is Nissan Motor's UK importer/distributor, maintains that the level of acceptance of its cars in the British company car market has been growing since Nissan began local production.

Mr Bill Daulby, Nissan UK fleet sales director, says that the establishment of the UK production plant was the "catalyst" for companies such as Legal & General, Marks & Spencer, Trust House Forte and BICC buying Nissans.

At the same time, of course, the growing volume of output from Sunderland is the chief reason driving Nissan into the company car market. Direct car imports from Japan have in effect been limited in volume to 11 per cent of the UK market since the second half of the 1970s, and until there was an alternative source of supply from European production plants, the Japanese car makers were happy to live largely off the more lucrative private retail market.

Nissan is currently *producing only one range at* Sunderland, the Bluebird – which will be replaced by the Primera in the autumn – but in 1992 it adds a small Micra-class car and production is scheduled to reach a total of 200,000 a year in 1992-93, split equally between Primera and Micra.

"Doors will open even more quickly," says Mr Daulby, when the Micra is UK-built. Last year, of total Nissan car sales in the UK of 138,437, some 10-11,000 were sold to fleets of 25 and above, but Nissan UK estimates that a total of 30-40,000 went to business buyers overall.

"If there is a UK-badge or a European-badge policy, there are not many companies that do not say yes, the Bluebird should be on the list," he says.

Some 69 per cent of Nissan's car sales in the UK last year were represented by Bluebird and Micra, the two classes of car that will be built at Sunderland.

The Japanese presence in UK car production will grow quickly. Already Rover Group, the British Aerospace subsidiary, is set to produce 30-40,000 Honda Concertos a year on its Longbridge, Birmingham assembly line. Output began late last year.

Honda itself is committed to building 100,000 cars a year by 1994 at its own site at Swindon in southern England, where it already has an engine plant in operation.

Toyota is committed to building 100,000 cars a year by late 1995, rising to 200,000 cars a year by 1997-98 at Burnaston, near Derby, but this timetable could well be brought forward.

Nissan is aiming to build 200,000 cars a year at Sunderland by 1992-93. Output totalled 77,000 last year. The company has already indicated its ambition to expand to a capacity of 400,000 cars a year in the UK by the late 1990s, however, and both Toyota and Honda are expected to expand significantly beyond their present publicly declared targets.

By the second half of the 1990s Japanese car makers will account directly for around a third of UK car production of about 2m units a year. They have already announced publicly plans to develop a capacity for building more than 500,000 cars a year.

The wave of inward investment into the UK by Toyota, Nissan and Honda now totals some £1.81bn. The projects announced so far are set to create around 8,250 direct jobs, and at least the same number in the *automotive components* industry.

**Kevin Done**
***Motor Industry Correspondent***

With the Budget looming, **Kenneth Gooding** looks at the financial implications for the company car

# Perk factor drives into taxation difficulties

EMOTION, rather than logic, often prevails in the company car market. For example, in the past five years the tax charged on the benefit of using a company car has nearly trebled. "Many company car drivers are now over-taxed by a significant amount," says the Society of Motor Manufacturers and Traders.

Yet Inland Revenue statistics show that in the past four years the number of people paying tax on company cars has doubled to 2m, confirming that the company car system is so deeply embedded in British business that only surgery could remove it.

As many as seven out of 10 executives interviewed for a survey on behalf of Hertz Leasing and Fleet Management automatically expected to be offered a car.

"It is now considered by many executives to be a necessary part of any job package," Hertz concluded. "Not offering a car can have a significant, negative effect: 41 per cent of the respondents said they would think there was something wrong with a company that did not offer company cars. Thirty per cent of directors believed that gaining a company car would be even more important than a salary increase when changing jobs."

Hertz found that the car's value to the user was relatively insulated against tax increases on the personal benefit. Two-thirds of the executives interviewed claimed that they would keep their company car even if tax increases neutralised the financial benefit. This might already have happened.

Mr Norman Donkin, managing director of Lease Plan UK, says research shows that the average company car in Britain travels 19,500 miles a year, of which 9,100 miles is private use. This means that 47 per cent of the cost of the car represents private benefit – "and our figures show that the scale charges (tax on the benefit of using a company car) have now reached this level."

Company cars account for more than one in six of the 20m cars on UK roads and for more than one in two of all new car registrations.

The motor industry and its customers frequently complain that the vast majority of these company cars are not perks but are necessary tools of the trade. Salesmen and service engineers, for example, could not be expected to do their jobs if they had to rely entirely on public transport.

Yet these are the people who are, by some estimates, being over-taxed for the benefit of having the use of a company car. However, more than two-thirds of the salesmen questioned for the Hertz survey said they would keep their company car even if tax charges eliminated the financial benefits. Hertz says this reflects that "for the vast majority, the operational advantages of a company car are more important than the financial benefit."

But "there was some resentment from salesmen that cars which were a tool of the job were taxed at a similar rate to those used only occasionally."

So, how does the company car tax system work?

Drivers of company cars are taxed according to the vehicle's original cost, its capacity and its age. The tax is halved if the driver clocks up more than 18,000 miles on business a year and doubled for fewer than 2,500 miles – with the journey from home to work and back counting as private motoring.

**The motor industry complains that the vast majority of company cars are not perks but are necessary tools of the trade**

Using this system, the Inland Revenue assesses the worth of a particular car to the user and the user is taxed as if extra salary has been received.

Even though the scale charges (that is the notional value of each car) have been increased substantially in recent budgets, company cars still provide a highly-efficient form of tax avoidance.

Incomes Data Services reckons, for example, that a 1.6 litre Vauxhall Cavalier used solely for 12,000 miles of private motoring is equivalent to £3,300 in extra salary. But the real perks come at the top end of the market. A Jaguar Sovereign 3.6 is worth £16,300.

At the same time, employers benefit because they pay only between 40 and 80 per cent of this "extra salary" as they avoid having to pay National Insurance contributions on it.

Back in 1984, a report by Transport and Environment Studies (Test) estimated that the Treasury lost about £1.5bn a year because of the company car system – equivalent to £75 for each British household.

Increases in scale charges since then have almost certainly reduced the "loss" to the Exchequer to about £500m.

But the cost of the company car does not end there. Cheap company motoring has severely distorted public transport policies and encouraged traffic jams in highly-populated areas – a 1982 survey of central London car users found that 79 per cent of those commuting to work were receiving some form of subsidy from their employers towards motoring.

Meanwhile, company managements are involved in hours of unproductive time, deciding which grade of worker should get what type of car.

In order to reflect the hierarchies endemic in many British companies, the cars they provide tend to be larger than those bought privately. They consume more petrol, emit more pollutants and the statistics show conclusively they are involved in more accidents.

The present UK Government has been gradually dismantling tax concessions for the relatively well-off while reducing the rate of personal taxation. It would prefer the system in Britain to change so that, like other west European countries, corporate executives would be able to keep enough taxed income to buy the cars of their choice for their personal use rather than being presented with vehicles by their companies as perks.

Organisations representing the motor industry and its agents are suggesting that the Government's efforts to reduce the importance of the company car might soon bear fruit – and they warn that the fruit might have a bitter taste.

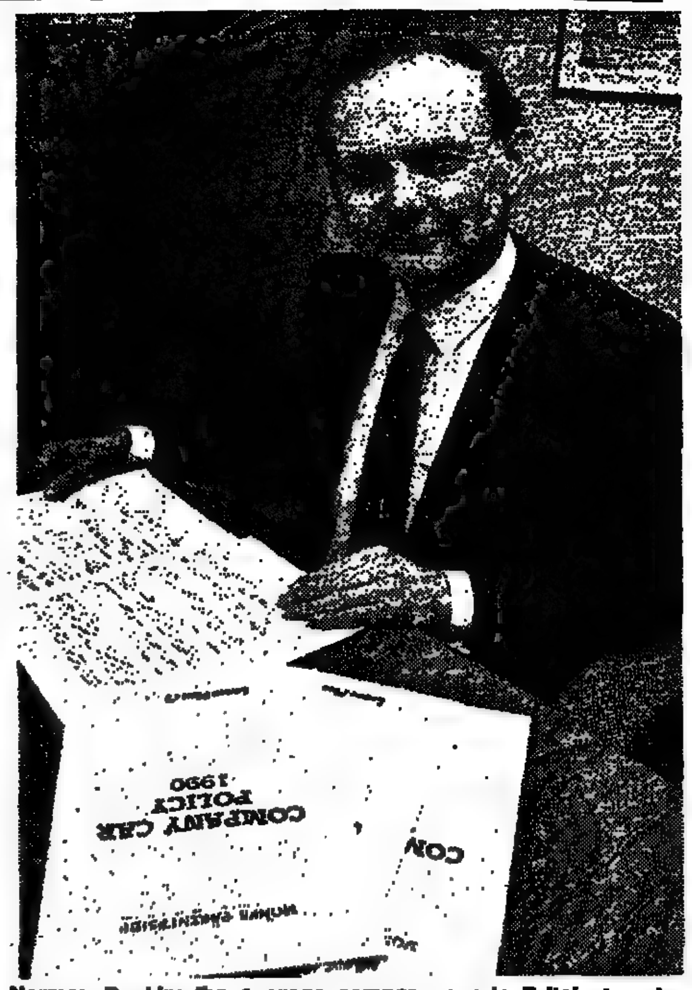
For example, in a joint Budget message this year the Equipment Leasing Association and the British Vehicle Rental and Leasing Association said that, if tax charges are not changed to take account of past inflation, "companies will switch to a system under which their employees will provide their own cars and claim mileage allowances for business use.

"This will lead to a significant increase in the purchase of foreign-made cars in substitution for vehicles of British manufacture," the associations said.

That is not exactly what the Hertz survey showed. It found that well over half the executives questioned would replace their company car with second-hand cars, some up to five years old, with the intention of minimising the depreciation of their vehicles.

However, "many executives felt that this, coupled with a system of pool cars, would significantly reduce a company's efficiency," Hertz said.

The survey did not look at the potential impact on Britain's car market. But it is clear there would be a tremendous upheaval in both the new and used car sectors in the unlikely event that the Government's efforts to eliminate the perk part of the company car market succeeded.



Norman Donkin: the average company car in Britain travels 19,500 miles a year, of which 9,100 miles is private use

Latest offerings for truck users

# Drivers reap the rewards of technology

HEADS RULE hearts in the selection process for truck and vans. Fleet operators, where chief accountants or financial directors are the arbiters of vehicle quality, adopt more down-to-earth policies in choosing new vehicles than do smaller transport concerns or owner drivers.

Increases in engine horsepower and torque, of the kind which advancing diesel technology has brought in the last two or three years, are impressive for drivers, but much less so in the eyes of those responsible for monitoring pence-per-kilometre running costs.

Fleet managers are apt to eschew superficial refinements, such as styling fripperies and interior trim, whose appeal is primarily aesthetic rather than functional.

**Fleet managers tend to eschew superficial refinements**

Commercial vehicle engineering, helped by computer-aided design (CAD) techniques, made such large strides in the 1980s that performance improvements have, in many instances, come from greater engine- and/or transmission efficiency.

Livelier acceleration and a better hill-climbing ability have been accompanied, for the first time, by better fuel consumption and greater reliability and longer component life.

Nowhere is this phenomenon more apparent than in the development of the diesel engine for commercial vehicle applications.

Van and light truck manufacturers such as Ford and Fiat-Iveco have successfully developed small direct-injection (DI) four-cylinder diesels of about 2.5 litres capacity which beat their traditional indirect-injection rivals by 15 per cent or more on fuel economy. Performance is comparable with older engines and, in Fiat's case, the addition of turbocharging puts output of the DI engine up to an unrivalled 110bhp.

Unfortunately, a decombustion chamber means inherently greater mechanical noise, though the latest two-spring injectors from Lucas and Bosch have softened the combustion process in the two latest small DI diesel contenders: the 2 litre Perkins Prima used in Leyland-DAF's 200 series van and the 2.5 litre Land-Rover diesel developed for the new Discovery model.

Ford's big-selling 2.5 DI-engined Transit models and Fiat-Iveco's heavier turbo Daily range are remarkably flexible in their performance, satisfying many buyers who traditionally bought petrol-engined vans.

It is the extra fuel economy bonus of direct-injection, along with the accepted durability of the diesel which has brought the dramatic rise in demand for diesel-powered light commercial vehicles.

In heavier trucks, engine technology has advanced on different fronts. Direct-injection diesels have long been taken for granted, and, since the mid 1970s, turbocharging has become the norm on chassis with a gross (all-up) weight of more than about 16 tonnes. Only Mercedes-Benz continues to offer naturally-aspirated engines right up to the heaviest 38 tonne weight category.

Turbocharging and the further related measure of intercooling have helped raise the power obtainable from a given-sized engine by allowing more fuel to be burned with each rotation of the crankshaft. Because the fuel is burned more completely and more productively, miles-per-gallon figures are improved at the same time.

Those maximum-weight turbo-intercooled truck models such as the Volvo F10/12, Scania 113, DAF 95-series and Cummins 10 and 14 litre engined ERFs and Seddons, all of which sell in large numbers to fleets, sell on two marketing platforms. Fuel economy in combination with the low servicing and repair costs of a modern heavy truck – especially its power train – accounts for their mainstream fleet appeal.

Enhanced performance means that, 1990s road congestion permitting, journey times can be trimmed, implying an extra productivity bonus. The vehicle can be out hauling its next load that much sooner and drivers are kept happy as well. Better performance breeds greater job satisfaction for the man in the cab, especially if it means less gear changing.

**Turbocharging and intercooling have raised power**

Improvements in engine efficiency which help both performance and fuel economy are likely to slow down in the 1990s. European Community regulations aimed at cutting pollution from the diesel will, as they become more stringent, force technical compromises on engine builders.

Conflicting measures are implied, for example, with regard to exhaust emissions, in reducing the level of nitrogen oxides on the one hand and particulates (solids) on the other. Getting both pollutants down to proposed levels will entail unwelcome compromises. Either fuel economy or performance or both will have to be sacrificed in the interests of the environment.

Fleet users will in consequence be faced, not for the first time, with higher operating costs, which it could take another decade for diesel engineers to recoup in technological advances.

**Alan Bunting**

IF COMPANY cars were bought for the same reasons as lorries, to do a job as efficiently and economically as possibly, most sales would be concentrated in the £12,000 and under class.

Such a rationalisation and downgrading of fleet policies is, of course, never going to happen. But the thought is prompted by the sheer excellence of many moderately priced cars available.

Rover Group's new 200, for example, is compact in size but a comfortable 4-seater with fair-sized luggage space. It cruises quietly at the tolerated 80 mph with plenty of power in hand. In town, it is handy and easy to park – if fitted with the optional power steering.

It is well finished, has a proper Rover-style interior with touches of wood veneer trim and can be had with automatic transmisison and air conditioning. It is priced in the under £9,000 to £12,000 range.

Considerations of pecking order and prestige *apart*, a Rover 200 car would meet the needs of many business users who drive far larger and more costly cars.

*Other under*-£12,000 European cars which offer similar performance, comfort and driveability include the Citroën BX, Fiat Tipo, Ford Sierra, the Nissan Bluebird and Peugeot 405 (both made in Britain), the Renault 19 and 21 and Vauxhall Cavalier.

In performance terms, these modestly priced medium-sized cars are little different from more luxuriously furnished, more exclusive and far more expensive models. However, it would, be a duller world if we all drove similar cars.

The attractions of having one that is bigger, more powerful and has greater prestige are not to be denied.

New arrivals on the business car scene in the last year include the Alfa Romeo 164 automatic. This large and elegant car is quiet and offers a mix of Italian *brio* and an Germanic feel of quality.

**Stuart Marshall** on what's new in the car sector

# Prestige still matters

Rover 216 GSi: part of the 200 range

BMW, one of the most prized marques among user-choosers, has just released Lux versions of its smallest 3 Series cars. They are similar in concept to the special equipment models but priced more affordably from £13,500 upwards for the 316i.

At the other extreme, I think the Series 7, with its swift and silken V12 engine, is the best boardroom level car in the world.

With the arrival of the Citroën XM in Britain, the company has brought a most advanced electronically controlled suspension to the 2 litre and 3 litre executive car market. The car firms or softens the ride to maximise comfort and handling security. Driven like a sober saloon or a sports car and the suspension adjusts itself instantly to suit the driver's mood.

Ford hope to see Granada and Scorpio sales rise with the introduction of 4-door saloons, with engines ranging from a twin overhead camshaft, 16-valve, 2 litre to a 2.9 litre V6. They always have been roomy, comfortable cars but in this class, not every buyer or user is prepared to have a hatchback.

The latest four wheel drive (4WD) Sierra Cosworth, which puts its 220 bhp on the road *through all four wheels, offers* supercar performance and executive saloon amenities at a down-to-earth £25,000. It has astonishing vigour but rides comfortably and *is* so well mannered it makes few demands on a driver's skill.

The latest Jaguar XJ6, with its engine size increased to 4 litres to improve its pulling power at lower speeds, has made the car as effortless a performer as one expected it to be when launched three years ago.

Lancia's bid for a slice of the mid-range executive car market is the Dedra, available in Britain at prices between £10,695 and £15,395. It combines an interior that would not be out of place in a Rover with, in the case of the 2 litre, a great deal of refined yet sporting performance.

Mercedes-Benz, still the *standard-setters for quality cars in* the £15,000 to over £50,000 range, has updated its mid-range 200 and 300 models.

The 300E-24 saloon, 300TE-24 estate and 300CE-24 coupé have the same multi-valve engine as the glamorous SL convertible and have gained significantly more performance with no loss of refinement.

The Peugeot 605 range will soon arrive in Britain. Engines and transmissions are similar to those of the Citroën XM but Peugeot has gone for more traditional styling and conventional steel-spring suspension. The 605s have the quality and performance to challenge cars such as the BMW, Jaguar, Mercedes and Rover.

Renault's Chamade saloon, developed from the 19 hatchback, is a refined, high value alternative to a number of cars in the £7,500 to under £10,000 brackets. The driver is well insulated from road and mechanical noise, controls are light and the interior is thoroughly civilised.

The Saab 9000 range of 2 litre and 2.3 litre saloons are individual *in character*, safe and comfortable to ride in. The new 2.3 litre engine is smooth enough to be mistaken for a six-cylinder and its near constant power delivery over a wide speed range reduces the need for gear changing.

For users demanding even more performance, the 2 litre turbocharged and intercooled 9000 Carlsson is a stimulating drive, but still with a large car's interior space and luggage capacity.

Arguably the best all-rounders among British-made, medium-sized cars are the Vauxhall Cavaliers, which in January toppled Ford from first place in the best-sellers list. They have everything most users look for, *smooth styling, front-wheel* drive, a choice of four or five-door bodies and easy driveability.

Volkswagen's Passat is solidly built and, especially with the 16-valve engine, lively to drive. It is a price rival cars such as the new Lancia Dedra and Volvo 480 saloons or, from *the same VAG stable*, the Audi 80.

Four-wheel drive has been slower to take off in the executive car market than the manufacturers had expected. This is perhaps because Britain has not had a really hard winter for three years and all-wheel drive for road-going cars is still perceived mainly as a snow traction aid.

This underrates all-wheel drive's handling and safety benefits when applied to cars such as the Audi quattros and 4x4 versions of the Ford Sierra and Granada, Peugeot 405, VW Golf and Vauxhall Cavalier. They display straight line stability on wet and windy motorways and cornering balance on slippery roads that front or rear wheel driven cars cannot match.

## PROFILE: Switching to unleaded

# Cost savings as well as ecological gains

ADOPTING an unleaded-only fuel policy has offered more than merely ecological advantages for Rapid Recall, a High Wycombe-based computer company. It has also resulted in savings of around £8,000 a year on its fuel bill because of the lower cost of unleaded petrol – which is more than enough to offset the slightly poorer miles per gallon figures returned by some cars after they have been converted to run on the lesser-octane fuel.

The initial decision to switch to an unleaded fuel policy was taken by Rapid Recall's directors primarily for ecological reasons "We felt it was the right thing to do now the fuel is readily available and the sort of cars we have on our fleet are all engineered to run on unleaded," said sales and marketing director Mr Frank Kemp. But he acknowledges that the financial benefits are more than welcome too.

The company runs three grades of cars for its staff. For field sales and marketing staff who are mainly out on the road, the BMW 316i is used as a base car, defining both the budget and the type of car.

"We prefer our reps to be seen using smart and reasonably prestigious cars and the BMW has the advantage of being attractive to the driver – which helps in terms of recruitment – as well as providing a good image and having good residual values," said Mr Kemp. The cars are kept for two and a half years, in which time most will have clocked up between 50,000 and 60,000 miles a year, so "it is important to get a reasonable return on the vehicles when they are sold."

Other grades are based on the 320i for management and the 525i for general managers and directors; in round terms the budget restrictions for the three grades are £12,000, £15,000 and £30,000 respectively.

However, drivers are allowed to top up their chosen car to improve the specification or to add extras for which the cost is deducted monthly out of their salary. The only restriction is that they are not allowed to top up beyond the next grade of car. Within the budgetary restraints drivers can choose from a list of makes which include Ford, Vauxhall, Volkswagen, Mercedes-Benz, Audi, BMW and Peugeot.

Japanese, Swedish and Italian cars are excluded mainly because a totally flexible policy on choice can become expensive and difficult to administer. Other models are excluded for specific reasons. "We don't allow Porsche for example because as a company we offer a cost effective service and we feel that a rep turning up in a Porsche might not give *quite* the right impression," said Mr Kemp. "We look at costs and depreciation statistics and then offer a list of manufacturers from which drivers can make their selection," he added.

**Lower costs of unleaded offset the slightly poorer miles per gallon figures**

In fact, around half actually plump for BMWs. Until recently Rapid Recall bought its cars outright but it has recently switched to leasing them. The current high interest rates prompted the move, according to Mr Kemp. "We had a lot of money tied up in the company car fleet and it seemed to us that with the cost of borrowing at the moment we could make better use of those funds."

He pointed out that for exactly the same reasons, an increasing number of companies with which Rapid Recall does business have recently switched from buying to renting their computer equipment. "It's cyclical," he said. "And while interest rates are high it makes good sense to do it this way." The company also recently switched to Dialcard for its fuel purchases. Previously drivers paid with their own credit cards and reclaimed for the petrol on their expenses but the volume of mileage meant not only that petrol represented an increasingly significant amount of overall expenditure; but also that vast numbers of individual receipts had to be processed and checked.

Furthermore, it was difficult to keep accurate records of mileage because of the difficulty of getting drivers to remember to enter it at every transaction. "We are currently spending around £200,000 a year on fuel so it made good sense to issue all our drivers with a Dialcard," said Mr Kemp. "Already we are beginning to get accurate mileage figures so we can judge the cost-effectiveness of individual cars and see which are costing an inordinate amount to run."

*Accurate returns* from Dialcard also reveal the savings of around £8,000 that the switch to unleaded fuel has brought. When the switch was made, only new cars which could run on unleaded fuel were bought. At the same time the company offered to convert existing cars to lead-free and held a series of 'blitz conversions' days on which as many cars as possible were converted.

"We ran into no opposition whatsoever from the staff, all of whom recognised that the switch was financially sensible and also ecologically sound," said Mr Kemp. "The only difficulties came from one or two of the older BMWs which were converted but in practice did not convert very well. Because of poor performance their drivers asked for them to be converted back to run on regular leaded fuel. But that is now history because as those cars came to the end of their two-and-a-half year cycle they were replaced with new vehicles which had been specifically engineered to run on unleaded."

**Martin Derrick**

## PROFILE: The BMW as company car

# A Bavarian influence

WITH 18 BMWs in a total fleet of 76 cars, the Bavarian influence on *Blenheim Exhibition's* acquisition policy looks pretty strong. But there are several good reasons for this, says Mr Keith Langridge, of Blenheim *Exhibition*, who points out that the percentage of BMWs at the head office in West London is even higher – the car park there looks as if it might have been rented by a local BMW dealer for overspill parking.

Blenheim's policy is to offer a BMW 316i to company directors – there are 10 companies within the UK Group – and a 325i or 320i convertible to company managing directors; those are the "base" models; in fact eligible employees are free to choose other makes so long as they are not more expensive.

"However, most choose BMW," said Mr Langridge. "From the drivers' point of view, it has a certain style and a certain status and from our point of view it is cost-effective because of the good resale values of the cars. So although *the option to choose a different* make is there, we tend not to make too much noise about it because *it* suits us to have as many BMWs as possible."

*Officially the* cars are *kept* for three years or 50,000 miles. At three years old, said Mr Langridge, they will still attract a good re-sale price and because the new cars all tend to be sourced from the same dealer, Blenheim can normally expect to get as good a deal as any on the front end price.

Because the cars are in relatively short supply, delivery can be a problem. "There are long waiting lists for the convertibles but it works both ways. It can be an inconvenience not getting the cars we want immediately but because of the long waiting lists demand is clearly exceeding *supply and so* used car prices remain exceptionally strong."

Mr Langridge feels there is very little competition. "The Mercedes-Benz 190 is too expensive so all you are left with are cars such as the top of the range Fords or Vauxhalls which really do not have the same image or cachet."

Outside Blenheim's head office there are fewer BMWs, *not so much for* policy reasons as for pragmatic ones. Blenheim has grown considerably in recent years through acquisition of other exhibition companies in Britain and abroad; as such it has acquired numerous different company car policies. "What we tend to find is show managers and organisers *in a Volkswagon Golf GL* or equivalent and others in what is our base model – it was the VW Polo but we recently switched to the Renault 5 1.4," said Mr *Langridge*.

Sticking to a relatively limited number of makes and models ensures that the administration problems associated with the fleet are kept to a minimum. Administration is handled by Mr Langridge and an assistant and he feels that this policy means Blenheim can expect – and gets – a higher level of service from local dealers than might otherwise be the case.

"If we take the example of the BMW fleet, than I can call the dealer and say there is a minor problem with one of the cars which will only take an hour or so to fix but I need it done right now. He will do it for us because he knows that we might take our business elsewhere." So by being loyal to one dealer and putting plenty of business his way we ensure that we get the level of service that we require."

Interestingly, Blenheim's view is that it can get better levels of service by running the fleet entirely in-house than if it used one of the specialist fleet management companies. "We tried fleet management but it turned *out to be very unsatisfactory* for us," said Mr Langridge. "We found they wanted to take an order for a new car and that was that. But is quite often happens that we want to change the specification slightly in the meantime; the fleet management company made that very difficult whereas buying ourselves we have no trouble at all making minor changes up until the time that the car is actually being built.

"As far as the servicing side of things went, we found that we had a better relationship with the local dealer than with the fleet management company. So if there was a problem the *fleet* management specialist was often unable to impress on the garage the urgency of the work.

"Furthermore, we found ourselves talking to a different person every time we called and we were constantly given unsatisfactory answers. In the end we felt that in using the fleet management company we were losing our own bargaining power with the dealers we do business with and so we were getting a lower level of overall service. It did not make purchasing or servicing easier. In the end a problem with the chairman's car brought matters to a head and about 12 months ago we reverted to running the fleet ourselves."

All Blenheim's cars are bought outright. That is partly because the company is cash-rich so it has no need of the finance element that is offered in a contract hire or leasing *package*; it is also partly because the company is wary of getting involved with third parties. "We had our fingers burnt once putting the fleet in the *hands of another* organisation which simply did not perform for us. Now we would rather do it ourselves," said Mr Langridge.

**Martin Derrick**

**Phillip Hastings** looks at developments in the UK truck market

# Large vehicle users opt for leasing and contract hire

REGISTRATIONS OF NEW COMMERCIAL VEHICLES IN UK

| | Trucks and Artics | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|
| | December | | 12 months | | December | | 12 months | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| UK | 1,921 | 2,504 | 40,689 | 40,366 | 11,749 | 13,266 | 222,507 | 215,039 |
| Imports | 1,045 | 1,476 | 28,545 | 27,552 | 6,082 | 7,380 | 146,027 | 141,744 |
| Total | 2,966 | 3,980 | 69,234 | 67,918 | 17,831 | 20,646 | 371,104 | 356,783 |

Source: Society of Motor Manufacturers and Traders

GROWING UNCERTAINTY over legislative requirements, an increasingly complex operating environment and fears of a business slowdown are encouraging more operators of large commercial vehicles to opt for leasing or contract hire of trucks rather than outright purchase.

Problems for UK truck operators, for example, include worries that expected changes in the Government's interpretation of drivers' hours regulations will necessitate substantial alterations to patterns of haulage operation, continuing differences between the UK and other European Community countries when it comes to the maximum weight of vehicle allowed, and other environmental factors such as lorry bans and exhaust emission controls.

On the plus side, the recent move by the EC to start the much debated move towards full cabotage — the domestic movement of goods by non-resident operators — throughout the Community should open up new opportunities for developing truck fleet operations on the Continent.

However, UK truck operators could be at something of a disadvantage since the 38-tonne limit on articulated vehicles in the UK and the Republic of Ireland puts those two countries out of step with EC countries where the maximum gross weight is generally 40 to 44 tonnes.

The limit of 32.5 tonnes for drawbar units in the UK and Ireland is even more out of line with the rest of the EC where the maximum weight allowed varies from 40 to 50 tonnes.

Although the European Commission last year agreed to put a time-limit on the derogation which allows the UK to retain 38 tonnes as the maximum weight, there was disappointment among truck operators that the deadline mentioned was 1998 rather than 1992-93.

Meanwhile, UK truck operators appear to be slowing down fleet development in the expectation of less business activity over the next year or two.

The total number of new registrations for trucks and articulated vehicles in the UK during 1989, according to the Society of Motor Manufacturers and Traders, was 69,234, slightly up on the 1988 figure of 67,918.

The share of that market for UK manufactured trucks improved slightly. They accounted for 40,689 registrations in 1989 as against 28,545 for imports, compared with figures for 1988 of 40,366 and 27,552 respectively.

However, while total truck registrations for the year were up in 1989, figures for December showed a significant fall —

### Problems include expected changes in the interpretation of drivers' hours

2,966 as against 3,980 for the same month in the previous year. The figures were in line with those for the commercial vehicle sector as a whole.

The total number of new registrations for 1989 was 371,104, some 14,300 (4 per cent) up on the 1988 total of 356,783. In December, though, the 1989 figure of 17,831 was nearly 2,800 (14 per cent) down on the December 1988 total of 20,646.

According to Mr Neil Pykett, a main board director of vehicle contract hire/leasing group T Cowie, the downturn in commercial vehicle registrations at the end of 1989 suggests there will be increased activity in that sector for the contract hire industry.

As more transport operators experience cost of operation problems, they are examining contract hire as a means of relieving those problems. Operators can improve their gearing ratio by having vehicles off the balance sheet, he claims.

"We are getting increased inquiries for trucks and for light commercial vehicles. Operators are seeking the same financial advantages through contract hire as they can get for their car fleets. Adding to the growing interest among fleet operators in the idea of leasing or contract hiring trucks is the increasing complexity of legislation governing road transport operations."

Concerns in that context include reports that the Department of Transport is considering a change in its interpretation of the hours regulations for truck drivers.

The regulations state that drivers must take rest breaks totalling at least 45 minutes for each rolling period of 4.5 hours of driving.

So far, the department has accepted that drivers can take a number of reduced breaks totalling 45 minutes during a driving period rather than the full break at the end of that period, and then drive for a further 4.5 hours without a break.

The revised approach being considered by the department would require the driver to take an additional break in that second period.

Hauliers claim the change would increase the total amount of rest drivers must take, push up costs, necessitate changes in the methods for checking tachographs and generally complicate the calculation of drivers' hours.

The spectre of higher costs comes just at a time when UK hire and reward truck operators involved in international activities are hoping to gain from the recent decision by the EC's council of transport ministers to introduce an experimental and limited cabotage system.

The scheme, which will come into effect on July 1, involves a total of 15,000 new cabotage licences or permits being issued to enable transport companies from one EC country to carry out domestic operations inside another member state.

That should mean, for example, that a UK truck returning to home base empty after delivering a load in Lyons, France, would be able to carry a French domestic load back to Paris en route.

Cabotage operations will be carried out under the transport laws and regulations of the host country in which the journey is being made.

Included in that category will be issues such as rates, weight and dimension technical standards, and drivers' hours. Other matters, such as vehicle registration and taxation, will be the responsibility of the operating company's home state.

TRAILERS

# Weighty problem of dimensions

THE RECENT publication by a leading trailer manufacturer of a booklet detailing future European Community regulations on trailer weights and dimensions highlights one of the main problem areas for UK operators.

Trailer operators looking to develop their fleets face having to acquire new equipment which will meet existing legislative requirements within the UK and in the rest of the EC and be suitable for use in what is likely to be a much changed operating environment.

In a bid to ease some of those difficulties, the booklet, published by Norfolk-based trailer manufacturer Crane Fruehauf, describes the trailer dimension changes agreed at a meeting of EC transport ministers last year. The booklet details when the changes are due to be implemented.

However, even an understanding of relevant EC legislation on trailers does not solve all the problems. Most recent examples of the complications which can confront UK trailer fleet operators involve the recent Government decision to allow 13.6 metre trailers to be used for domestic work as well as international operations from 1990 — a year earlier than planned. Previously the limit had been 12.2 metres.

The overall length limit for articulated vehicles incorporating trailers is being increased this year from 15.5 to 16.5 metres. The decision to accelerate the process of change and bring the UK in line with EC specifications was expected to make it easier for trailer fleet operators to order new equipment. However, operators have other constraints to consider.

"Most UK 4x2 tractive units have a much shorter wheelbase than those operated on the Continent — typically in the range 3.1 to 3.4 metres, compared with about 3.8 metres, and this means that the front of the new 'long nose' trailer is almost certain to foul the back of the cab," claims the FTA.

If the fifth wheel is moved rearwards in an attempt to achieve adequate clearance then, in many cases, this will result in the overall length exceeding 16.5 metres and will take the drive axle over the 10.5 tonnes limit for the UK.

Coupled with the need for trailer fleet operators to acquire units which can be operated throughout Europe is a growing demand for more sophisticated equipment.

A good example in that context is that air suspension customers increasingly want that feature because of the greater trailer and load stability, driver comfort and safety it provides. Other users require equipment with tail lifts to facilitate easier loading/unloading operations.

Further confirmation of the increasing demand for more specialised trailer equipment came from Mr Colin Barr, marketing manager for BRS Trailer Rental. He said BRS was working closely with both customers and equipment manufacturers to provide specialist equipment for niche markets.

Mr Barr said examples included garment trailers for the clothing industry, dual temperature trailers fitted with ozone generators and thermographs and extendable low loaders.

With equipment getting ever-more sophisticated and legislative requirements ever-more complex, more companies are opting to rent trailers rather than commit themselves to heavy capital investment in equipment which might quickly become obsolete.

The UK trailer rental market is estimated to involve some 200,000 units of more than 16 tonnes and is said to be growing rapidly. However, the market's nature is changing.

Trailer rental organisations increasingly need to provide more than just standard units such as tandem-axle box vans and curtainsiders. They are having to offer more sophisticated units such as tri-axle curtainsiders with air suspension, tandem axle curtainsiders with varying heights, tri-axle and tandem-axle reefers.

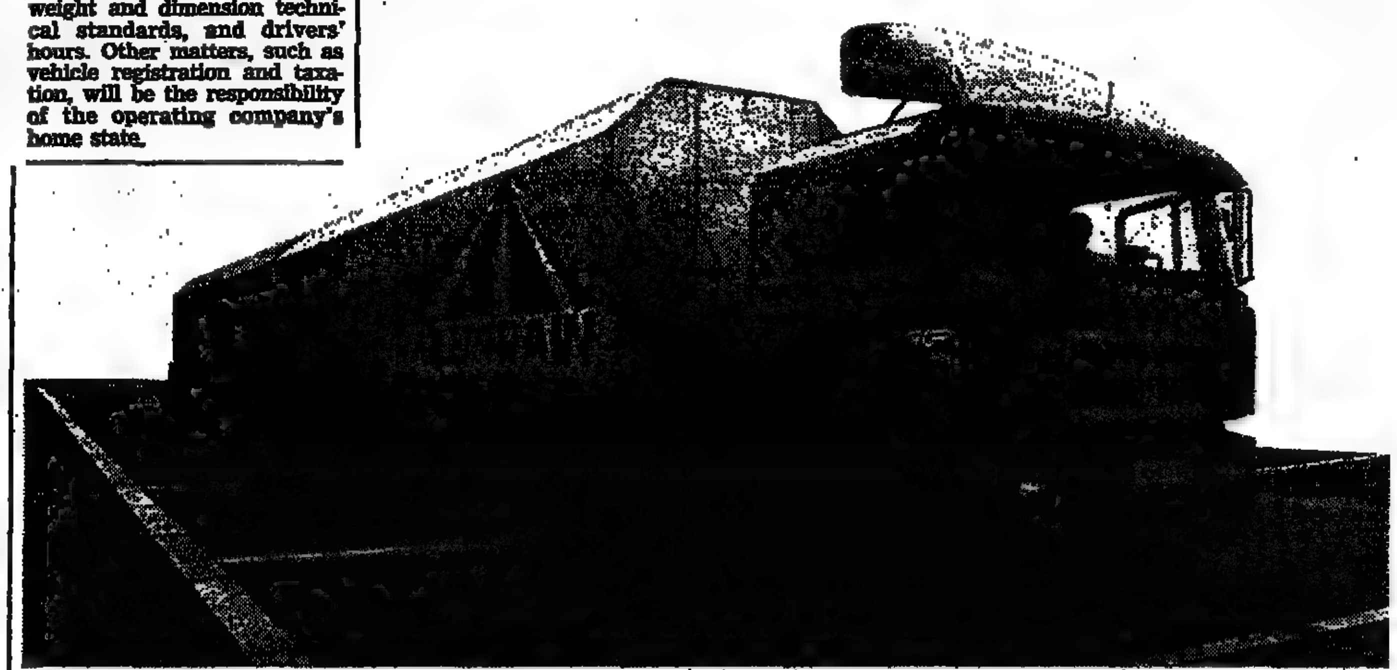
In that context, trailer rental companies stress the importance of equipment suppliers and users discussing requirements. Trailer equipment rental, they say, involves as much consultancy activity as truck or even car rental. Demand is growing for trailer units which can be used in connection with European road/rail intermodal transport services.

One of the leading European trailer and container rental companies, Tiphook, for example, has recently introduced a road/rail intermodal transport system incorporating the piggyback concept. The system comprises a combination of a lightweight rail car and a standard articulated semi-trailer. An hydraulically controlled platform section of the rail wagon swings out horizontally, allowing a trailer to be reversed on. Power is supplied by the attendant tractor unit. Unlike other similar systems, though, the tractor unit is then detached, allowing a separate unit to be used at the completion of the rail journey.

An alternative is a system called Trailer Train, which moves road semi-trailers by rail. A variety of body types can be specified, including dry vans, curtainsiders and tankers, and the rail/road changeover is said to take only about six minutes.

Trailer Train vehicles have completely separate and independent running gear for road and rail operation. In the road mode, Trailer Train is separate from its rail bogies which it leaves at the railhead terminal. In rail mode, the road wheels retract to allow the units to be moved on rail bogies at speeds of up to 120 km an hour.

Other technological developments in the field of intermodal transport include MiniLink and MaxiLink. The former is a small demountable system developed to handle small and high value goods which uses a specially-equipped four-wheel road chassis to switch bodies from rail to road and vice versa in about one minute. MaxiLink caters for larger demountables and can transfer units between the two modes in about six minutes.



The bimodal system: Trailer Train moves road semi-trailers by rail

Phillip Hastings

**Sapphire LX.** **Sierra GLS.** **RS Cosworth.**


# The 1990 Sierras. Proof that you can improve a winning formula.

At Ford, we pride ourselves on our ability to listen to what you, the driver, has to say.

This policy has brought about yet another sweeping round of improvements and refinements to the entire Sierra-Sapphire range, including the luxurious 2000E.

Let's have a closer look.

**The Sierra LX.**
**Replaces the Sierra L for the same price as the L.**

Whatever happened to the 'L'? We've simply replaced it with the Sierra LX. This car has many more features than the 'L'. Specifically, these are power front windows, an adjustable steering column, a 'lights-on' warning buzzer, tachometer, instrument panel dimmer, luxury velour trim, sports seats, anti-theft alarm, remote fuel filler/boot release, centre console with arm rest stowage, rear courtesy light, courtesy light delay and four spoke steering wheel. Phew!

But wait, here's the best bit. All this extra equipment comes at no extra cost, because the new 1.6/1.8LX models are the same maximum retail price as were the Ls before February 1st.

Back to the technical side, the LX is powered by a 1.6, 1.8, 2.0 petrol or 1.8 litre Turbo Diesel engine. The 2.0 litre petrol version is, as you'd expect, the most powerful. And will propel you from rest to 60mph in just 11.1 seconds.*

**The new Sierra GLX.**
**Now performance and luxury are brought together.**

Moving on and up-market, here's another shining example of Ford's diversity. The new Sierra GLX comes with a choice of four engines. The familiar 1.8 litre, a new 2.0 litre DOHC (Double Overhead Camshaft engine) and, for the performance afficionados among you, a fuel injected version of the same petrol engine. Finally, there's a new 1.8 litre Turbo Diesel engine.

Whichever model you choose will cruise comfortably, and more importantly, safely, at high speed on those long hops down the motorway.

Sierra GLX Estate. Sierra XR4x4. Sapphire Ghia.


All the new DOHC engines get a new gearbox so sophisticated they have syncromesh on reverse. Other features include front fog lamps, headlamp wash-wipe, and electronically heated door mirrors, clearly a good idea.

**The Sierra GLS.**
**At home on the racetrack or the high road.**

A sporty car for the driver who still wants to be Jackie Stewart. This car uses the same engine management system as the Ford-Benetton car that won last October's Japanese Grand Prix. Its peppy engine will thrust you from 0-60 in a mere 9.1 seconds*.

There are disc brakes on all four wheels, power assisted steering, and a sports suspension designed to keep you on the roughest of country roads. Ultra-low profile tyres and a black tailgate spoiler on the hatchback ensure you'll also look good around town.

**The Sierra Ghia.**
**Sapphire now available with 4-wheel drive.**

A slightly more discreet looking vehicle, the Ghia offers an outstanding combination of luxury and 'driveability.'

You wanted 4-wheel drive? You've now got it as an option on the DOHC 2 litre-injected Sierra Ghia Sapphire.

There are other refinements, notably the Ford-pioneered 'Quickclear' windscreen. Gone are days of hurriedly scraping off ice with credit cards. The electric heater in your window will also stop freezing fog frosting over it.

Other examples of our dedication to stress-free motoring include a top-of-the-range stereo and a pneumatic lumbar adjustment (that's additional back support) on the front seats.

**The XR Sierras. Two important new additions.**

There's now a family of 3 XRs. The superb 2.9 litre XR4x4 you all know and love. That gets new alloy wheels.

In addition there's also a new DOHC 2 litre-injected XR4x4 for the more tax conscious.

*Ford computed figures.

For those who want the performance and looks of the 2.0 litre XR4x4, but don't require 4-wheel drive, we've introduced the new XR4i.

**The new Sierra RS Cosworth.**
**Now with integral 4-wheel drive.**

Well, really, you even demanded more from our ultimate roadcar, the RS Cosworth.

Your tenacity has been rewarded. On the new one you'll find permanently engaged 4-wheel drive and a turbocharged engine, boosted to a staggering 220 ps. The suspension has been modified accordingly, driveshaft redesigned and yes, the brakes have been up-rated to boot.

**The new Turbo Diesel Sierras. Our other Turbos.**

The RS Cosworth used to be our only turbocharged Sierra. Today there's a new generation of Turbo Diesels, available in Classic/Laser, LX and GLX form. They have an incredibly efficient 1.8 litre engine, which performs more like the petrol variants.

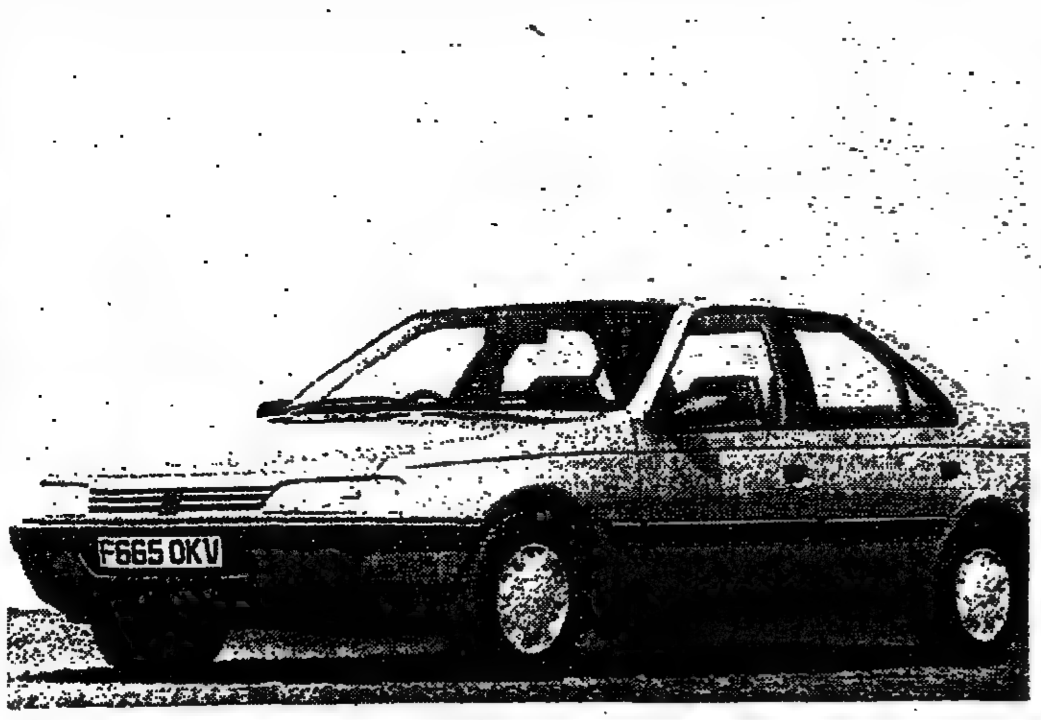
**The Sierra Classic and Laser.**
**Cut the cost of moving up to a larger car.**

Say you want to change your car, perhaps because you've got a growing family or simply want more room, then look no further than the Sierra Classic or Laser.

They offer an easier jump into the big car bracket. Each model now comes with an electronic radio-cassette, tinted glass and 14" wheels with 185/65 tyres, plus a whole range of other new features, all as standard. There's even an option of ABS brakes. You'll find both cars an absolute pleasure to drive.

For details of Ford's Winning Fleet Package call the Ford Fleet Information Service on 0245 283245 or write to the Ford Motor Company Limited c/o EWA, St. Mary's Green, Chelmsford, Essex CM1 3TU.

**There is only one Sierra.** Ford



Peugeot 405: part of the band of cars in grade two

PROFILE: Leasing

# Contracts tailored to suit every need

MR RICHARD Robinson, manager of facilities and purchasing at Hitachi Data Systems (HDS), recently received a cheque for £12,277.69 from Mr Norman Donkin, managing director of Lease Plan. Lease Plan is the company that supplies and maintains the 200-plus cars that Hitachi Data Systems operates – and this is not the first time that repayments have been made.

"We have received a refund every year we have been with Lease Plan," says Mr Robinson. "This latest cheque is a very satisfactory refund in respect of 14 of the vehicles which were terminated in the past 12 months."

However it was not just the prospect of such refunds that attracted the company to the Open Calculation system. According to Mr Robinson, one of the greatest advantages is the flexibility within the system that allows HDS to control costs by working out a projected mileage for each car/driver on the fleet and then tailoring a contract to those requirements.

So, for example, an engineer living close to the City of London and doing most of his work there will probably clock up quite a low mileage; in that case, a three-year/36,000 miles contract would probably be most suitable. But another engineer with a large territory may well do 30,000 miles a year and in that case a two-year/60,000 miles contract would make better economic sense.

"We found earlier that when we had a blanket 60,000 miles contract covering the whole of the fleet, we paid out vast sums of money, even though some cars were going back with only 35,000 miles on the clock," says Mr Robinson.

Furthermore, the Open Calculation system allows HDS to terminate cars early without penalty – so long as the vehicles achieve the projected residual value for its current age and mileage. "What this means is that if someone joins the company and leaves 18 months later we can dispose of his car rather than putting it in the pool – which is expensive – or paying a £5,000 or £6,000 termination charge, as we often had to with the previous contract hire companies we dealt with."

Hitachi Data Systems chose to contract hire all its vehicles some years ago, when the company was National Advance Systems, a subsidiary of the US firm National Semiconductor. The company was incorporated in Delaware and the accounting policy was to keep fixed assets to an absolute minimum – hence it made sense to rent rather than buy. HDS came into being late last year when National Semiconductor sold the subsidiary company to Hitachi. However, as far as the vehicle fleet is concerned, there are no changes in direction as far as contract hire is concerned.

"Apart from the advantage of not having fixed assets on the balance sheets, if you buy and run your own vehicles you first have to finance them and then you have your money tied up in lumps of metal sitting in the car park or running round the country depreciating fast.

"You also have the enormous hasale of sourcing and supplying the cars themselves. Then you have the nightmare of the administrative and accounting procedures. You have to take on responsibility for maintenance and repair and finally you have to dispose of the cars, hoping you get the best possible prices. But with contract hire you don't get any of this aggravation," says Mr Robinson.

HDS company car drivers get a fairly wide choice of cars from within lists of 20 or so models in each of four bands. Grade 1 has models such as the Ford Sierra 1.6 Estate of Vauxhall Cavalier 1.6GL; Grade 2 moves up to Ford Granada 2 litre, Audi 80 and Peugeot 405 territory while drivers in Group 3 can choose from the likes of the BMW 320i or Granada 2.9. At the top of the scale, branch managers and senior managers can choose models such as the BMW 520i, Mercedes-Benz 190 or Rover 827.

Board members also get a relatively free choice, within a set budget. The lists of eligible cars are drawn up each year at a meeting between HDS and Lease Plan. Mr Robinson acknowledges that this is a very flexible car policy – and therefore probably not the most economical – but the HDS view is that since many of their drivers spend a great deal of time on the road, they would like a reasonable level of comfort. Therefore the models chosen tend to be those with high levels of specification.

In drawing up the lists, care is also taken to ensure that there is a reasonable differential between the grades "so that when people get promoted they also get a bit of a lift with their new car." In future, however, it is possible that fewer HDS employees will be provided with company cars. Already around 6 per cent of those eligible have opted to provide their own cars and take a mileage allowance for business use instead.

"Now we have a situation in which a good number of people whose cars are due for replacement round about April or May are waiting to see what the Chancellor will do at the next Budget before making a final choice," says Mr Robinson. "If he imposes further penal levels of tax in the benefit-in-kind scales, I think quite a few more might decide it's in their interest to take the mileage allowance instead."

**Martin Derrick**

## Phillip Hastings looks at methods of buying commercial vehicles

# Tendency towards subjectivity

**REGISTRATIONS OF NEW COMMERCIAL VEHICLES IN UK**

| | LCV NE 1800kgs | | | | LCV 1801-3500kgs | | | | Light 4×4 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | December | | 12 months | | December | | 12 months | | December | | 12 months | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| UK | 4,686 | 5,175 | 86,839 | 83,984 | 4,668 | 4,958 | 87,670 | 82,063 | 301 | 500 | 8,240 | 6,904 |
| Imports | 1,390 | 1,910 | 32,633 | 33,678 | 2,961 | 3,431 | 71,851 | 68,276 | 831 | 538 | 11,603 | 11,224 |
| Total | 6,076 | 7,085 | 119,472 | 117,662 | 7,629 | 8,389 | 159,521 | 150,339 | 1,012 | 1,038 | 19,843 | 18,208 |

Source: Society of Motor Manufacturers and Traders

THE CHOOSING of vehicles for van and light commercial fleet operations should centre on an objective assessment of the available options to produce the optimum solution for the activities involved.

However, there is still a tendency for a degree of subjectivity to influence decisions, particularly among medium and smaller-size operators.

Although certain basic criteria have to be met, the choice of vehicle is often based on financial considerations such as which dealer will offer the best terms, or personal preferences of the fleet/operations manager and drivers.

For example, the managing director of one medium-size UK parcels delivery company admitted that during the early days of his organisation, the important factor when it came to van purchasing policy was the availability of finance.

As the company became better established it began to look at the quality and performance of different vehicles, he said. Decision-making often rested on the experience of managers at a local level.

However, according to some companies involved in supplying vans and light commercial vehicles for fleet operations, such an approach can prove costly. Mr Neil Pykett, a main board director of T Cowie, the vehicle contract hire/leasing group, claims that some operators lose thousands of pounds a year through ineffective fleet management.

"They lose money because they exercise no proper control over vehicle acquisition and maintenance and their disposal policy for use vehicles tends to be haphazard and unscientific," he said.

To support that claim, Mr Pykett cited the example of a multi-depot company with a fleet of nearly 200 vans.

All the vehicles had been purchased by local depot managers who were responsible for arranging servicing of the vehicles and selling them on the second hand market.

"They had no real idea of what the fleet was costing them over a 12-month period because the whole operation was completely uncontrolled.

Another complication is that when it comes to vehicle selection, it is often necessary to take a number of incompatible factors into account.

In many cases, therefore, a compromise has to be reached. For example, drivers involved with high frequency deliveries tend to prefer vehicles with more than one access door to allow easier loading and unloading but that can diminish security.

"For vehicles operated in London, it is useful to have side door loading capability because of the traffic problems," said Mr Brian Taylor, sales manager for London-based courier company Speed Services.

Figures from the Society of Motor Manufacturers and Traders show that the number of registrations for light commercial vehicles of up to 1.8 tonnes in 1989 was 119,472, about 1,800 up on the 1988 total of 117,662.

In 1989, UK manufactured vehicles accounted for 86,839 registrations and imported vehicles, 32,633. That compared with 83,984 and 33,678, respectively, in 1988.

The picture for light commercial vehicles in the 1.8 to 3.5 tonne category was similar, with the 1989 total of 159,521 being just over 9,000 up on the 1988 figure.

Again, UK manufacturers slightly improved their market share with 87,670 registrations, against 71,851 for imported vehicles. Comparable figures for 1988 were 82,063 and 68,276.

New registrations in the light 4x4 commercial vehicle category showed an increase in 1989 over 1988; 19,843 as against 18,208. In that sector, imported vehicles outsold UK manufactured units; 11,603 compared with 8,240.

However, UK manufacturers did improve their market share – the figures for 1988 were 11,224 for imports and 6,984 for UK produced vehicles.

Technologically, the van and light commercials market has not seen many breakthroughs or changes over the last few years.

**COMPARISON: Small/medium car-derived vans**

| | Lease factor# | Pay load (kgs) | Load volume (m³) | Fuel code* |
|---|---|---|---|---|
| **Small car derived vans** | | | | |
| Metro 1.3 310 City | 100 | 310 | 1.08 | E |
| Fiesta 1.1 Pop van | 106 | 325 | 1.22 | R |
| Peugeot 205 Standard | 108 | 420 | 1.21 | E |
| Fiesta 1.8 Pop diesel | 118 | 310 | 1.20 | D |
| Peugeot 205 diesel Std | 116 | 420 | 1.21 | D |
| **Medium car derived vans** | | | | |
| Escort Pop 35 1.3 van | 100 | 410 | 2.28 | R |
| VW Caddy van | 101 | 615 | 2.60† | E |
| Bedford Astravan 1.4 Std | 102 | 605 | 1.88 | E |
| Escort Pop 1.8D | 106 | 415 | 2.28 | D |
| Bedford Astravan 1.7D Std | 107 | 605 | 1.88 | D |
| VW Caddy diesel | 110 | 695 | 2.60† | D |
| Peugeot 305GL 1.9 diesel | 110 | 510 | 1.61 | R |

#The optimum lease factor is 100
*E=use leaded or unleaded; R=refer to dealer on unleaded; D=diesel
†Load volume includes overhead shelf

Source: Cowie Interleasing

However, one significant trend has been the improvement in the overall performance of diesel powered vehicles to the point where it is claimed that criticisms over alleged lack of performance are no longer valid.

According to Cowie, diesels now compete well, laden or unladen, with their petrol engined counterparts and have the added advantage of greater fuel economy.

To support that argument, the company has produced a table showing a range of popular small and medium-car derived vans according to their lease factor. That factor takes into account all costs, other than fuel and insurance.

On the legislative front, one potentially important recent development for operators of vans and light commercial vehicles involved the move last year by the UK Government to publish proposals for changes in the country's goods vehicle operator licensing system.

Under those proposals, licensing will still be required for goods vehicles of more than 3.5 tonnes gross vehicle weight.

However, the Government is suggesting that hire and reward operators with vehicles in the 3.5 to six tonne range should be relieved of the need to meet the requirements of good repute, financial standing and professional competence as outlined in the European Commission directive on admission to the road haulage business which covers vehicles of more than six tonnes.

This would mean hire and reward operators of vehicles in the 3.5 to six tonne category would be licensed in the same way as own account operators.

That includes the requirement to demonstrate sufficient resources for the proper maintenance of vehicles and the provision of a suitable operations centre.

VEHICLE FLEET MANAGEMENT 11

The contract hire industry is under pressure from falls in car residual values and increased competition, **Ken Gooding** reports

# Tax issue raises financial temperature

A SHAKE-UP has started in the UK contract hire business that will probably have wide-ranging effects on the industry and might bring problems for its clients.

The pressures come from two directions: a recent sharp fall in car residual values and the intense competition seen in the contract hire industry since the late 1980s. At that time dozens of newcomers elbowed their way into this fast-growing business.

The financial strain these factors are placing on some contract hire companies might be relatively short-lived, but the industry has seen some big clients gradually drift away, partly because of the Government's tax treatment of company cars. This obviously has implications for the industry's long-term health.

The new entrants in the contract hire business made their biggest impact in 1987.

However, many based their forecasts of car residual values on prices being achieved that year — and 1987 was far from typical.

There was a dearth of good used cars, reflecting the mid-1980s recession in the new car market, and prices of used cars rose by 18 to 20 per cent from the 1986 level.

In recent months residual values have slumped because high interest rates are doing their job and deterring potential used car buyers.

Cash prices have not fallen far but used vehicle values, when expressed as a percentage of future new prices, are dramatically down.

At the same time, because most user companies keep their cars for three years, the unusually high number of contract hire and lease cars bought in 1987 are causing a glut.

Geoff Cobley: warned in 1988 that some companies were getting their residual values wrong

Ian Buckley: moving away from routine contract hire

It was apparent at the end of last year that several contract hire companies were beginning to have problems disposing of their used cars because their stocks were building up. Rather than keep the vehicles through the winter, many companies sold them at what one observer described as "abysmally low prices."

Problems are expected to get even worse this year. This means some contract hire companies face serious financial difficulties.

**The new entrants in the contract hire business made their biggest impact in 1987**

Take, for example, a company which bought a car for £10,000 in 1987 and assumed a residual value in 1990 of £4,500. The car, in current conditions, is unlikely to fetch more than £4,000, thus eliminating all profit on that particular contract.

There are between 500 and 600 companies offering contract hire in the UK but only 40 of any great size and which are long-established.

The companies likely to be hardest hit are those which entered the market during the last five, good, years.

Mr Geoff Cobley, managing director of Fleet Management Services, part of the Greenhouse Group, gave a warning to the industry as long ago as 1988 that many of his company's rivals were getting their residual values wrong.

His advice to contract hire companies who can clearly see their past mistakes catching up with them is that they must take early action to cut back overheads and contain costs.

As far as car users are concerned, most hire contracts contain clauses which enable users to "escape" should the worst happen and the contract hire concern go into liquidation.

However, previous experience suggests that users suffer when contract hire companies get into trouble.

For example, if a contract hire concern does not pay its maintenance and repair bills on time, the impact is felt by its clients. It is client companies which lose the use of their cars if the vehicles are kept off the road when the contracted garage refuses to do the necessary repair or maintenance work because its bills have not been paid.

Mr Cobley admits the image of the contract hire industry might be dented in the short term. "But in the longer term it should be good for the industry if it shakes out some of the less-experienced operators," he says.

**In recent months residual values have slumped because of high interest rates**

"Car residual values are likely to continue falling until well into 1991 but eventually should subside. However, unless the Chancellor changes the way company cars are taxed, the gradual loss of larger customers seems likely to continue.

The industry insists that the tax laws discriminate against companies which finance their cars through leasing or contract hire.

The Government's original intention was to limit the tax relief available on luxury cars. However, to achieve that laudable objective, in 1979 it insisted that luxury car prices began at £8,000. That led to some argument even then. But the £8,000 limit has not been raised.

The £8,000 rule affects all purchasers of company cars, limiting the 25 per cent writing-down allowance to a maximum of £2,000. The industry claims that cars which are on lease or contract hire suffer a second disallowance, because the fleet user's ability to write off the rentals for tax purposes is also restricted.

Mr Norman Donkin, managing director of Lease Plan UK, sums up the industry's view when he says: "The Government maintains that a car costing £8,000 is an expensive vehicle. This is nonsense. The average fleet car purchased today costs over £10,000. In 1979, when the limit was last increased, £8,000 would buy a luxury car. But in 1990 this is ridiculous."

The £8,000 limitation makes contract hire or car leasing less attractive as cars become more expensive or when a company is using a large number of expensive cars.

Mr Cobley reckons the average sales representative's car now costs £8,600 after discount, while the average sum paid by companies for a car is between £9,000 and £9,500. "At this level it is more attractive to them to own the cars and claim the capital allowances," he says.

Consequently, a growing number of companies with large fleets is giving up contract hire and leasing. Fortunately for the industry, however, most of them do not want to take on the burden of having their own in-house car fleet management department and are turning to fleet management specialists instead.

Six years ago, for example, contract purchase (described in the accompanying panel) was virtually unknown in the company car market. Last year it accounted for 4 per cent.

Mr Ian Buckley, managing director of Evans Halshaw Vehicle Management Services, says his company is among those seeing a move away from routine contract hire. "Volatile high interest rates are making companies reluctant to enter into inflexible, fixed cost funding agreements," he suggests.

"For many fleets, a contract purchase scheme offers a versatile, tax-efficient alternative to contract hire — particularly for executive cars.

"Our larger clients such as Guinness use this method extensively because the agreement enables them to retain a high degree of flexibility on managing their fleet costs. At the same time, however, there are enough built-in safeguards within the agreement for the company to avoid becoming exposed to undue risks on residual values," he adds.

However, there are many in the industry who believe the uncertainties in the fleet car market are likely to persuade more companies which in the past have bought their cars outright to switch to contract hire.

"Many companies which are still financing and running their own car fleets, whatever the size, must necessarily take a second look at their policy in current circumstances," says Mr Geoff Becque, a director of Lease contracts. "With interest rates at their present high levels, it makes little sense for such companies to have large sums of capital locked away in depreciating assets which they usually don't have the skills, expertise and time to manage efficiently."

Mr Becque points out that there is a wider range of models than ever before in the UK fleet market. This is partly because of manufacturer initiatives towards the fleet sector, but also follows from the rapid development of "user-chooser" schemes.

"However, it does mean that without professional help the user company itself is more exposed than before to significant depreciation risks," says Mr Becque.

He adds: "It is essential that companies, and anyone involved in vehicle acquisition, whether they use contract hire or not, should appreciate what is happening with residual values and be guided by these. They should not base decisions on initial purchase prices alone, no matter what the discounts may be."

# Purchase still popular

THE MOST popular method used by companies to acquire fleet cars remains outright purchase whereby the user funds the vehicle from its own resources or bank loans and is responsible for all expenses and management, including ultimate disposal.

*Outright purchase* accounted for 75 per cent of the company car market in 1982 but by the middle of 1989 its share was down to 51 per cent, according to an analysis by Lex Vehicle Leasing.

Most of the business went to contract hire. In 1982, contract hire had 10 per cent of the company car market, in 1989 its share has grown to 26 per cent.

*Contract hire* involves the user company paying a supplier *a fixed monthly* rental for the use of a vehicle for a pre-agreed period and mileage.

Charges usually cover all servicing and maintenance costs but exclude insurance and fuel costs.

The user company never owns the vehicle, cannot claim capital allowances for it, takes no risks in its residual value and the vehicle never appears on the user's balance sheet.

The user can charge the rental payments directly against profits as a deduction for tax purposes.

The rentals of vehicles with a retail value when new of *more than £8,000 are subject* to a partial restriction for capital allowance purposes. This operates on a sliding scale, disallowing a part of the financing element of the hire charge according to the amount of the excess of the retail value of the vehicle over £8,000.

Use of *finance leases* for company cars grew during the 1980s but this method suffered a set-back after July 1987 when companies were required to record assets acquired by finance leases at net book value on their balance sheets. Consequently, finance leasing's share of the market has advanced from 7 per cent in 1982 to 8 per cent in 1989.

When a finance lease is used the supplier retains ownership and the user pays monthly charges which include capital and interest payments.

Although the liability in the lease must be noted in the lessee's balance sheet, the supplier claims capital allowances. The user is responsible for all expenses and management.

The use of *hire purchase* for company cars has grown since 1982 from 8 per cent to 11 per cent of the market.

In this method the user pays the supplier a fixed hire *charge for an agreed time and* has an option to purchase the vehicle at a nominal charge at the end of this time. The user is responsible for all expenses and management and the vehicle must be included on his balance sheet at net book value (cost less depreciation).

*Contract purchase*, which accounts for about 4 per cent of the market according to Lex Vehicle Leasing, is a system in which the user buys the vehicle from the supplier and pays the supplier fixed monthly charges for servicing and maintenance for an agreed period and mileage.

*The vehicle is on the user's* balance sheet and the user is eligible for capital allowances.

At the end of the contract the supplier buys back the car at a pre-agreed price. Thus the supplier bears all risks of the disposal value.

As VAT is charged only on servicing and maintenance and not on funding, contract purchase can be advantageous *to companies who are not fully* registered for VAT purposes.

**Kenneth Gooding**

Latest technologies have made it easier for fleet managers to communicate with their drivers on the road, **Della Bradshaw** reports

# So many ways to get the message through to the truck

ONE OF the most difficult things about managing a fleet of vehicles – be it saloon cars or articulated lorries – is to know where each vehicle is and how to get a message to it.

A clutch of new solutions to just that problem has appeared on the market over the past five years, ranging from portable phones to satellite message services.

**Many managers may not want to talk to the drivers — just get a message to them**

All the fleet manager needs to ask is: what sort of messages does the company and vehicle driver need to exchange — and between which countries — and how much is the company prepared to spend.

Although the heavily publicised cellular car phones would seem an obvious solution – and in the UK prices of such phones have dropped like a stone – the cost of making calls on the cellular radio networks can be expensive, particularly if the fleet drivers have relatives in Australia or south-east Asia.

Then again, many company managers may not actually want to talk to the drivers – just get a message to them, such as a change in the location of their next pick-up or delivery.

Transmitting these shorter messages has been the traditional role of the mobile radio company, which installs a special despatcher unit at the fleet company's headquarters from where messages are sent out to the individual drivers over specially-allocated radio frequencies.

These messages, where only one person can speak at a time by pressing the button first, are now available on a region-by-region basis in the UK, and will soon be obtainable nationally from companies such as Band Three Radio (of Basingstoke) or National One (of Chelmsford).

Subscribers to Band Three Radio can send and receive written copy in their vehicles

Such services are already proving popular, says Mr Callum Mackie, sales and marketing director of Band Three Radio. His service has 11,000 mobile radios on it, each making or receiving on average five calls a day, with each generally lasting about 30 seconds.

Customers using the service include Bass, the brewing company; the Amec construction group; TNT Skypak, the delivery company and even the RSPCA, the UK's animal protection society.

That said, many companies do not need voice communications at all – a message printed out in the cab could suffice.

Several of London's black taxi-cab companies now have computers which print out information on where to pick up their next fares. And companies such as Band Three Radio are offering data services as well as voice calls on their network.

These short bursts of data could be sent on the cellular mobile networks, with a modem attached to the receiving in-car computer.

However, using these services is comparatively expensive because the phone companies allocate a whole voice channel to the transmission – and charge accordingly – even though data can be squeezed into a much smaller space than voice and so sent more cheaply.

To solve this problem, five services will be set up in the UK over the next year which will enable companies to send these data messages to car or lorry fleets, initially in London but eventually throughout the UK.

The companies now negotiating licences for these national mobile data networks are Digital Mobile Communications, Hutchison Telecommunications and Ram Mobile Data, all of London, Cognito Group, of Cambridge, and Motorola Storno, of Basingstoke.

Hutchison is planning to begin its service by July, says Mr Robert Condon, a director, with the first applications likely to be for mobile units to send and receive messages from despatch riders or drivers.

His company plans to use a

**Transmitting shorter messages has been the role of the mobile radio company**

Canadian-developed computer and modem like those used in London's taxis.

But for many companies, with lorry fleets travelling across Europe, the most useful service is likely to be a system which can pinpoint the truck anywhere on the Continent and transmit information to the driver.

Such services, pioneered in the US, are now being introduced in Europe by the international satellite organisations.

The systems work by sending messages from the fleet company computer system – the address of the next job, say – to the computer system of the satellite service company.

From there, the message is sent to a satellite and then transmitted in blanket form across the whole of the Continent. The message is coded so only the individual truck with the appropriate receiving equipment can pick up the signal.

Eutelsat, the European European Telecommunications Satellite Organisation, based in Paris, is conducting trials of a service called Euteltacs, based on equipment from Qualcomm, of San Diego. The 26 countries which are signatories to Eutelsat will be able to use its satellites to send text messages backwards and forwards between a fixed base and a vehicle.

Lorries using the service will be equipped with an 11-inch circular antenna on the roof of the cab, an electronic transmitter and receiver unit and a small computer display unit with keyboard.

A similar trial service is being offered by Inmarsat, the international maritime service. The equipment used for Inmarsat C resembles that used by the Euteltacs service, but instead of a dish on the lorry roof there will be a cone to receive and send the signals.

Coach operation is made easier with direct communication

**Many companies do not need voice communications — a print-out could suffice**

Initially, that involved telex-style messages winging between headquarters and the lorry, but eventually it will enable companies to send information between their fleets and headquarters in the form of facsimile or electronic mail messages.

As well as transmitting text messages, these systems can also incorporate positioning technology to calculate where the lorry is to within, say, 100 metres.

Vehicle location systems include Loran C, available in North America and parts of Europe; Glonass, the Soviet pinpointing system, and the Navstar Global Positioning System (GPS), developed by the US defence authorities.

Although the US and Soviet systems were originally designed to pinpoint military vehicles, both will introduce a less sophisticated version – with less accurate pinpointing – for commercial use.

By the end of this year users in fleets in Europe will technically be able to get access to the GPS system for between 14 and 18 hours every day to enable them to pinpoint their vehicles. To many, that may still seem like pie in the sky.



CANADA

# Banks' threat to leasing business

WELL AWARE that it pays to shop around in the used car market, Canadian fleet managers are devoting a growing part of their energies to ensuring that they get the best deal when they dispose of their vehicles.

"We don't just want disposals," says Mr David Elliott, who manages a 1,300-vehicle fleet for the state-owned oil company Petro-Canada. "We want effective marketing of our used vehicles."

The result is that leading fleet management companies are pulling out the stops to ensure that they have their fingers as close to the pulse of the used car market as possible.

The success of their efforts can be gauged from the fact that Canada's two biggest fleet consultants, Triathalon Vehicle Leasing and PHH Canada, now sell not only fleet vehicles, but also wrecks and cars repossessed by banks. PHH expects to sell about 2,000 non-fleet vehicles this year out of a total of 14,000.

Fleet cars have traditionally been sold either to their drivers, other employees in the company or to wholesalers, brokers and dealers. One variation has been the "exclusive auction," where only vehicles managed by a particular company are put on the block.

Moving vehicles around the country has become another popular way of finding the best prices.

In a country as big as Canada, the used car market often differs markedly from one centre to another. Mr Elliott recalls recently getting an extra C$1,000 on a car which Petro-Canada shipped from its base in Calgary to Vancouver.

In their efforts to broaden the number of sales channels for fleet cars, Triathalon and PHH have started a service unique to Canada, in the form of their own used car marketing centres with adjoining cleaning and minor reconditioning facilities.

The PHH outlet in Toronto, for instance, is similar to an indoor car showroom. The floor accommodates up to 35 cars. Mr Jim Gilligan, PHH's vice-president for marketing, says that cars stay in the showroom for up to two weeks. If they cannot be sold within that time, they are moved to the normal auctions.

Mr Gilligan is confident the marketing centres help get better prices by giving fleet managers more control over the sales process than they have at auctions. PHH is planning to open outlets in Calgary, Edmonton and Halifax to augment those already open in Toronto, Montreal and Vancouver.

Although Triathalon also operates two of its own showrooms, Mr Hugo Sorensen, the company's president, is less sure about their benefits. He

**Moving vehicles around the country has become another popular way of finding the best prices**

agrees that the marketing centres enhances the fleet managers' control, but he notes that presentation is of little importance to knowledgeable wholesale buyers. "If I wash the car, will I get more money for it?" he asks.

GE Vehicle Management, the third of the groups which dominate the fleet leasing and management business in Canada, has decided against marketing centres.

Mr Les Coles, the company's president, says that "more important than a marketing centre is whether you have knowledgeable people. Our feeling is that you can get a good price if you have the right skills and knowledge on the marketplace."

The companies charge a negotiable fee to sell fleet cars. Mr Gilligan says PHH charges a minimum of C$200 a vehicle, but declines to disclose further details.

Of the three companies which dominate the Canadian fleet management market, Triathalon, 75 per cent owned by the Trilon financial services group, claims the biggest share, with a total of 59,000 vehicles under its wing. PHH Canada claims 41,000 vehicles. GE declines to give figures on its market share, but says it is roughly on a par with PHH, following its acquisition last year of the fourth biggest company, McCullagh Leasing, which had 17,000 cars in its stable.

Desjardins Leasing, a unit of the Desjardins co-operative movement, is a leading fleet manager in Quebec.

The companies themselves agree that services offered and prices charged to fleet owners are very similar. Competition is thus intense.

In an effort to get a head-start on its competitors, GE has set up what it calls a Circle of Excellence a group of about a dozen of its biggest customers which gets together twice a year in Toronto to air their joys and grievances about its services. Mr Coles says GE has put two new programs in place as a result of these discussions, namely, a taxable benefits report to fleet owners, and a vehicle licensing and re-registration service.

The biggest battle for Canada's fleet managers at present is to keep others out of the vehicle leasing business.

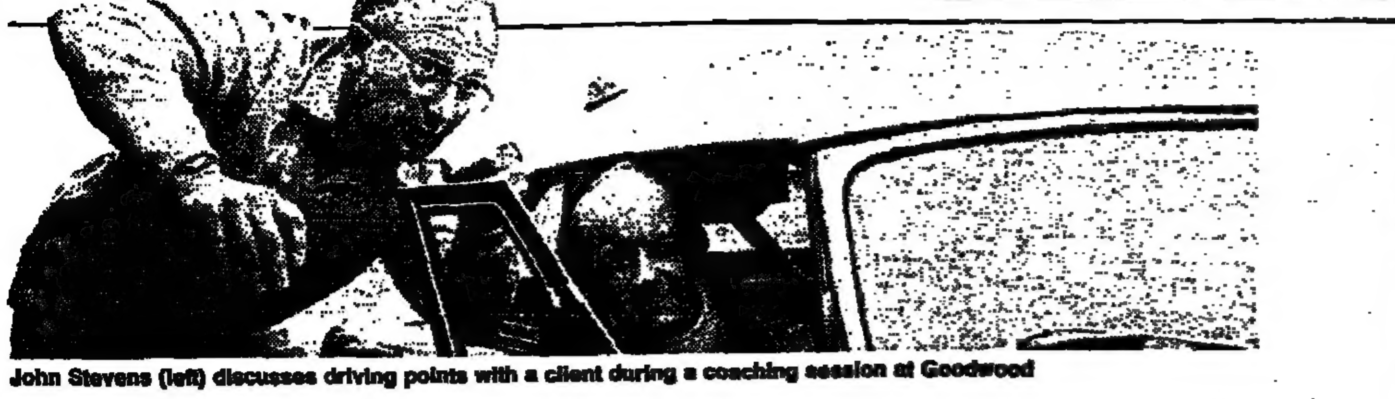
In particular, the country's big six banks see leasing as a logical extension of their financing of new cars. They are confident that they can offer lower charges than the leasing companies.

The banks still require government permission before they can enter the leasing business, and the leasing industry has mounted an aggressive lobbying campaign to stop them.

Although it may thus be some time before the banks get their wish, fleet managers are also concerned that the Big Three car makers may get into the leasing business in Canada, as they have in the US. "I think there are some things we can do to stop the banks," says Triathalon's Mr Sorensen, "but it would be difficult to stop the manufacturers."

The lessors lose no opportunity however, to discourage outsiders by reminding them that competition in the leasing and fleet management business is tough and margins thin.

**Bernard Simon**
*Toronto*



John Stevens (left) discusses driving points with a client during a coaching session at Goodwood

ADVANCED TUITION

# Driving and surviving

UP TO one-half of the UK's 3m company car drivers are estimated to be involved in a road accident of some kind every year.

Increasingly, industrial and commercial concerns are coming to recognise the unacceptability of such an appalling record, and not only in terms of the human tragedies implicit in such figures.

At the very least, even slight accidents add up to millions of man-hours lost annually, and rising direct cost burdens in the form of higher vehicle insurance premiums.

As awareness of the problem has increased, so has the number of companies professing to offer a solution in the form of advanced driving tuition for employees and directors.

The bigger companies, such as BSM Health & Safety, are now "processing" up to 5,000 company drivers a year.

Their claims to be reducing the accident rates experienced by companies appear to be borne out in the comments of client organisations.

For example, according to Mr Jeremy Burns, insurance co-ordinator at the UK subsidiary of Wang, the computer and electronics giant, Wang (UK)'s accident rate has been cut to the point where it has been able to negotiate a reduction in motor premiums of £140 a vehicle.

The approach of the "driving schools" can vary considerably, ranging from a few hours of re-addressing basics on the highway to all-day road and racing circuit-oriented instruction in the safe handling of high performance cars.

The latter is typified by a "Drive and Survive" course conceived by Ford for users of the 140 mph-plus Sierra RS Cosworth saloons, and which is centred on Ford's own motor sport testing circuit at Boreham.

A "Drive and Survive" course starts at 9 am with a briefing, is followed by two hours on Essex roads accompanied by an instructor, a lengthy skid training session – in which the benefits of anti-skid brakes are demonstrated – and finally car control instruction lasting one hour on the Boreham test track.

Such instruction is expensive – £295, including insurance. However, fees can be around half this level for more mainstream courses such as those operated by BSM Health & Safety, and which are concerned very much with changing driver attitudes and behaviour.

The BSM course initially involves a discussion "workshop" on accidents for senior managers, followed by a half-day classroom session on attitudes towards driving and modifying driver behaviour. The final phase is on-road driving with each driver having a personal instructor.

Driver behaviour, and the attitudes which influence it, is unquestionably the major cause of accidents, according to Mr John Stevens, who runs the Headley Down, Hampshire-based Advanced Driving organisation.

A former racing driver who has coached British grand prix driver Nigel Mansell as well as a steady stream of company executives, Mr Stevens is scathing about selfish, arrogant and aggressive driver behaviour which he regards as being far too prevalent on UK roads.

All too frequently, he observes, drivers come on his courses with an underlying belief that they are good, competent and fast drivers and doubting, deep down, that there is much that Mr Stevens can show them.

"Yet many of them actually have no idea of what is involved in skilled driving."

Once installed in one of Mr Stevens' cars circulating the former racing circuit of Goodwood, where car control and placing on the roads is demonstrated, they quickly learn, however.

The general reaction appears to be one of amazement at a vehicle's capabilities – and a belated awareness that skilled road driving is a far more complex business than they thought even after years of motoring.

"It is harder than it looks," says Mr Stevens, "but I try to make sure that they do not finish feeling depressed."

One chartered surveyor emerging from a coaching session described the experience as "very humbling."

At the risk of being criticised as dated and ultra-conservative, Mr Stevens professes a considerable amount of pessimism about the attitudes apparently shared by a substantial number of British drivers.

There is, he suggests, a widespread disregard for other road users, not least pedestrians, "reflecting a general problem of discipline and consideration for others in our society now.

"All too many drivers, when they get into their vehicles, feel that they are cocooned in steel, thus safe from retaliation and that they can then behave as they like.

"Sadly, there's a need for a lot more education in the home and schools, and stiffer legislation, to cope with it."

Nevertheless, the drive to improve standards among company car drivers – being strongly encouraged by the vehicle insurance industry – continues to gain strength, with motoring organisations like the Institute of Advanced Motorists and the Royal Automobile Club now playing an active role.

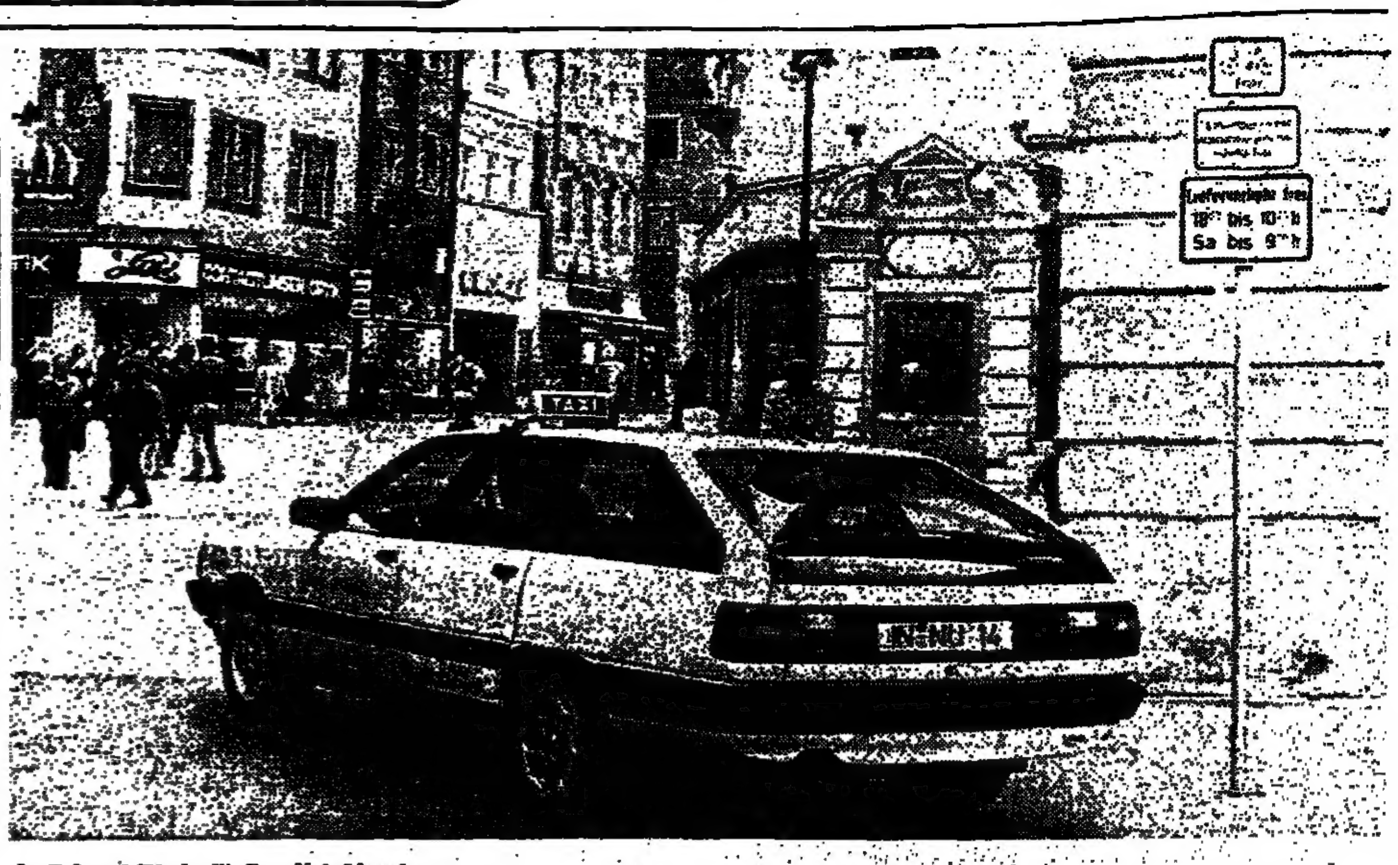
The RAC began offering its courses in the second half of last year, mainly at the urging of companies worried by their accident rates. It has now got a register of more than 1,000 instructors.

The Institute of Advanced Motorists has set up a subsidiary, IAM Fleet Training, to undertake a broad spread of driver training activities.

In some cases, the subsidiary has linked with other specialist companies in the business vehicle field, such as Manchester-headquartered Avis Lease and Fleet Management, to produce one-day training courses. The IAM scheme is based heavily on "Roadcraft", the police drivers' training manual.

According to Avis, one of the fleets involved in the training has cut its accident rate by nearly 50 per cent, from 2.24 to 1.5 accidents per 100,000 miles.

**John Griffiths**



Audi Avant fitted with Duo Hybridsystem

POLLUTION

# Exhaust control legislation favours catalytic converters

WELL BEFORE the end of this year, European Community ministers are virtually certain to approve tough legislation to reduce car exhaust pollution. Only by equipping all cars with catalytic converters will manufacturers be able to comply with the new laws.

The legislation, already finalised for small cars and expected to apply to all new cars after the end of 1992, will not formally state that "cats" must be used.

However, the permitted emission levels of carbon monoxide, oxides of nitrogen and hydrocarbons are being set so low that, at both current and readily foreseeable states of engine and combustion technology, no other approaches – such as "lean-burn" engines – will be able to provide an alternative.

Several immediate considerations arise for those concerned with the operation of vehicles for business:

■ What are the additional acquisition and operating costs likely to be when such vehicles become mandatory?

■ What are the financial arguments for and against operating environmentally "clean" cars during the next three years or so, when they will not be mandatory?

■ What operating difficulties are likely to be encountered – such as the reliability and durability of the converter system – if a decision to "go green" with the vehicle fleet is made?

Up to about a year ago, "scare" stories were widespread that a full catalytic converter system, complete with exhaust gas sensors feeding information to an electronic engine management system controlling the fuel-air mixture, would add up to £1,000 to the price of a vehicle – a crippling additional cost for small, basic fleet cars.

Nor was the concern much diminished by the initial prices being asked by manufacturers, once the belated upsurge in "green" sentiment in the UK started to take effect and it seemed like a good idea to offer "cats" as an option to the environmentally-conscious.

Rover Group, for example, initially asked £800 for the "cat" option on its Rover 800 Sterling model.

Within the past 12 months, however, competition between manufacturers – now anxious to be seen as deeply concerned about the environment – has sharply driven down the prices being charged for "cats."

At the same time, this need to be seen as "caring" has accelerated the introduction of catalyst cars in the UK by some manufacturers which had been reluctant to provide them in advance of legislative compulsion to do so.

In this, environmentalist group pressure appears to have played no small part. Ford, for example, was made the target of a widely publicised, and for it embarrassing, campaign by Greenpeace. This adapted one of the company's own slogans, "Ford gives you more," alongside a picture of a belching exhaust and the message that much cleaner "cat"-equipped Fords were available in other countries but not for British motorists.

**The legislation, already finalised for small cars and expected to apply to all new cars after the end of 1992, will not formally state that "cats" must be used**

It is now clear that the extra purchase cost of catalyst cars will work out as much less than previously feared. Here are some examples of the approaches being taken by some leading manufacturers:

In the executive sector, Audi recently restructured its entire model range in the UK, and from late last year has been offering only catalyst-equipped cars, and at a proclaimed "no extra cost."

(Nor, it seems, was the model restructuring merely a way of disguising charges for the "cats". In some cases prices were actually reduced as part of a campaign by Audi to reposition its cars in the marketplace because of a then-widespread public perception, acknowledges Mr Richard Ide, the company's managing director, that Audis were too expensive.)

From last month Volvo has been offering optional catalyst versions of its cars, also at no extra cost. BMW is offering the catalyst option on its UK cars at a standard price of £350, and intends to fit all UK models with catalysts as standard from next year.

From this year, Jaguar is offering "cats" on all its cars at an extra cost of about £600.

Also from this year, Vauxhall is progressively moving towards catalyst-equipped cars as standard, starting with the 16-valve Cavalier and 24-valve Senator models. Currently all its cars are capable of being fitted with converters as options, with charges ranging up to about £350.

Ford has also begun making catalytic converters available as options on cars fitted with fuel injection, at broadly similar prices to Vauxhall.

And Rover Group, which has cut to around £450 the price of a catalyst on its 800 Sterling executive cars, now offers "cats" of varying sophistication on most cars from the Mini upwards, mostly for about £250.

Given the current 10p a gallon fuel price differential in favour of unleaded petrol – on which catalytic converter cars must run – compared with four-star leaded fuel, manufacturers would thus appear to have reasonable grounds for maintaining that there can be no net additional cost for a company to run catalytic converter-equipped cars because of the saving in fuel costs over the two to four years that a car is likely to be on the fleet.

This argument is diluted to some extent, however, by two drawbacks associated with "cats" – namely a marginal decrease in on-road performance, and increase in fuel consumption.

While the former is unlikely to be noticed by even the most performance-minded drivers, the latter typically involves a consumption increase of between 2 and 5 per cent.

With the availability of unleaded fuel now so widespread as to be no longer a constraining factor, and the UK Government's apparent intention to maintain at least the current differential in unleaded petrol's favour, the net result appears to be that companies could adopt "cat-only" fleet car policies at little or even no extra cost in terms of the "whole life-cycle" of their fleets.

Companies thus have the opportunity to set a voluntary, pro-environment example in the nearly three years still to go before legislation in effect makes "cats" mandatory.

But how many companies will actually do so is another matter.

Nevertheless, the business sector is already making the running in terms of the use of unleaded fuel.

"Unleaded" currently accounts for about 25 per cent of all petrol sales. However, according to a study by PHH AllStar, the fleet management and fuel card operator, unleaded fuel now accounts for some 52 per cent of all petrol purchased by business drivers.

According to Mr Rob Whalley, marketing director, "in the past 12 months company car drivers have made a remarkable changeover to unleaded fuel.

"This time last year our figures showed that less than one gallon in 100 used by business drivers was unleaded."

One of the surviving "scare" stories about catalytic converter systems is that they may not be durable, and that replacing them would be far more expensive than a conventional exhaust system.

The latter is certainly true, but as US vehicle makers, which have been producing "cat"-equipped cars since the early 1970s, point out – their experience has been that the system lasts virtually the life of the car – and certainly that early part of it which is likely to be in corporate hands.

**John Griffiths**

**Stuart Marshall** weighs the pros and cons in the debate over the future of the diesel

# A greener future may spell trouble

THE OUTLOOK for diesels is an area of some dispute. Some observers say diesels will gradually disappear from British car fleets; others argue they will become the fleet cars of the future.

*Mr Geoff Cobley*, managing director of Fleet Management Services, said recently that the "greening" of Mrs Thatcher's Government could herald the diesel car's demise.

He foresaw companies with large numbers of diesel cars suffering financially. Many fleets had encouraged their drivers to move to unleaded petrol. This would have an impact on both diesel cars *sales and residuals, he said.*

In support of his claim, Mr Cobley said diesel car sales in Britain had risen by only 0.5 per cent between 1986 and 1988 in spite of some heavy investment by motor manufacturers.

Diesel seemed to be on the way out on the European mainland. In West Germany, demand had plummeted from a peak of 27.4 per cent of the market in 1986, to 16.6 per cent *in 1988, as a direct result of the* green issue.

Mr Cobley said that although diesel car sales in France, Austria and Belgium had increased, European sales were continuing to fall. Diesel car residual values in Britain remained reasonably strong but were heading downward.

He questioned whether the popularity of the diesel car in Britain could evade the European trend. *Once used car* buyers became hooked on unleaded fuel, he said, diesel residuals would fall, forcing fleets to move to cars with lower depreciation rates. Diesel car manufacturers might fight the "green" trend by cutting vehicle prices but any gains made on purchase would be wiped out when the cars were sold because of falling residuals.

"Fleet operators would be well advised to take notice of the signs warning of the death of the diesel," he said.

Since Mr Cobley's doom-laden forecast, the Society of Motor Manufacturers and Traders has issued statistics showing that diesel car registrations in Britain last year moved strongly upwards.

From 101,138 registrations in 1988 (4.6 per cent of the market), they reached 123,345 in 1989, or 5.36 per cent of the record total car market of 2,300,944, a rise of 22 per cent.

In western Europe last year, after two years of an overall decline in registrations, diesel car sales rose by 1.9 per cent to 1.88m, or 14.1 per cent of total sales, according to estimates by Automotive Industry Data (AID) of the UK.

Last year, France led Europe and bought 675,000 diesel cars (29.7 per cent of all registrations) and their sales there have more than doubled in the last three years.

In West Germany, once Europe's largest diesel car market, sales fell by 23.1 per cent to a five-year low of 294,157 against 382,497 in 1988 and a peak of 775,637 in 1986.

This relative collapse, plus a drop in Italy from 404,815 in 1988 to about 310,000 last year, has distorted the overall picture of generally increasing popularity for diesel cars.

*There were special reasons.* In Germany, for example, debate on the possibility that microscopic particles of soot in diesel car exhausts might be carcinogenic was long on emotion, short on facts. Nevertheless, the Government moved the legal and fiscal goalposts strongly in favour of cars with catalytic exhaust systems and running on unleaded petrol.

In Italy, hefty increases in the annual tax on diesel cars reduced their appeal unless they covered very large mileages.

The pendulum is swinging the other way. In Germany and elsewhere the diesel car is being recognised as environmentally more friendly than the petrol car. *Even without a* catalyser, its engine produces low levels of poisonous carbon monoxide, oxides of hydrogen and unburned hydrocarbons. Diesel fuel is lead free.

The diesel car puts between 25 and 33 per cent less carbon dioxide (CO), the principal "greenhouse effect" gas, into the atmosphere than a comparable petrol car with catalyser, simply because it burns less fuel.

Environmental acceptability probably does not bulk large in the average fleet manager's mind as he ponders car buying policy. However, it may have to if possible future trends in taxation and legislation are to be faced up to.

There have been rumblings of future action, perhaps by the end of the year, to tackle the greenhouse effect by curbing carbon dioxide emissions.

Citroën BX TZD: best selling diesel in the UK in 1989

**BEST SELLING DIESELS IN THE UK**

| Make and model | Number sold | Market share (%) |
|---|---|---|
| Citroën BX | 15,672 | 12.7 |
| Peugeot 405 | 12,819 | 10.4 |
| Ford Escort | 11,722 | 9.5 |
| Peugeot 205 | 11,559 | 9.4 |
| Peugeot 309 | 7,442 | 6.0 |
| Ford Orion | 7,378 | 6.0 |
| Vauxhall Astra | 6,295 | 5.1 |
| Rover Montego | 6,198 | 5.0 |
| Ford Sierra | 5,791 | 4.7 |
| Ford Fiesta | 4,940 | 4.0 |

Source: Society of Motor Manufacturers and Traders

Mr Bryan Gould, Labour's environment spokesman, said earlier this month that if Labour was returned to power, it would use taxation, pricing and new transport programmes to tackle vehicle pollution and conserve energy.

Such green taxes could penalise users of cars with high fuel consumption while the only realistic way to give a large car the fuel economy of a small one is to power it with a diesel engine.

Technological advance is making diesel cars cleaner, livelier and more agreeable to drive.

Volkswagen's latest *umwelt* (environmental) 1.6 litre diesel is claimed to be the "greenest" engine in any production car.

It is available in Britain in both the Golf and Jetta, it is turbocharged not so much to increase power output but to force more air into the cylinders so that the fuel burns more cleanly and efficiently.

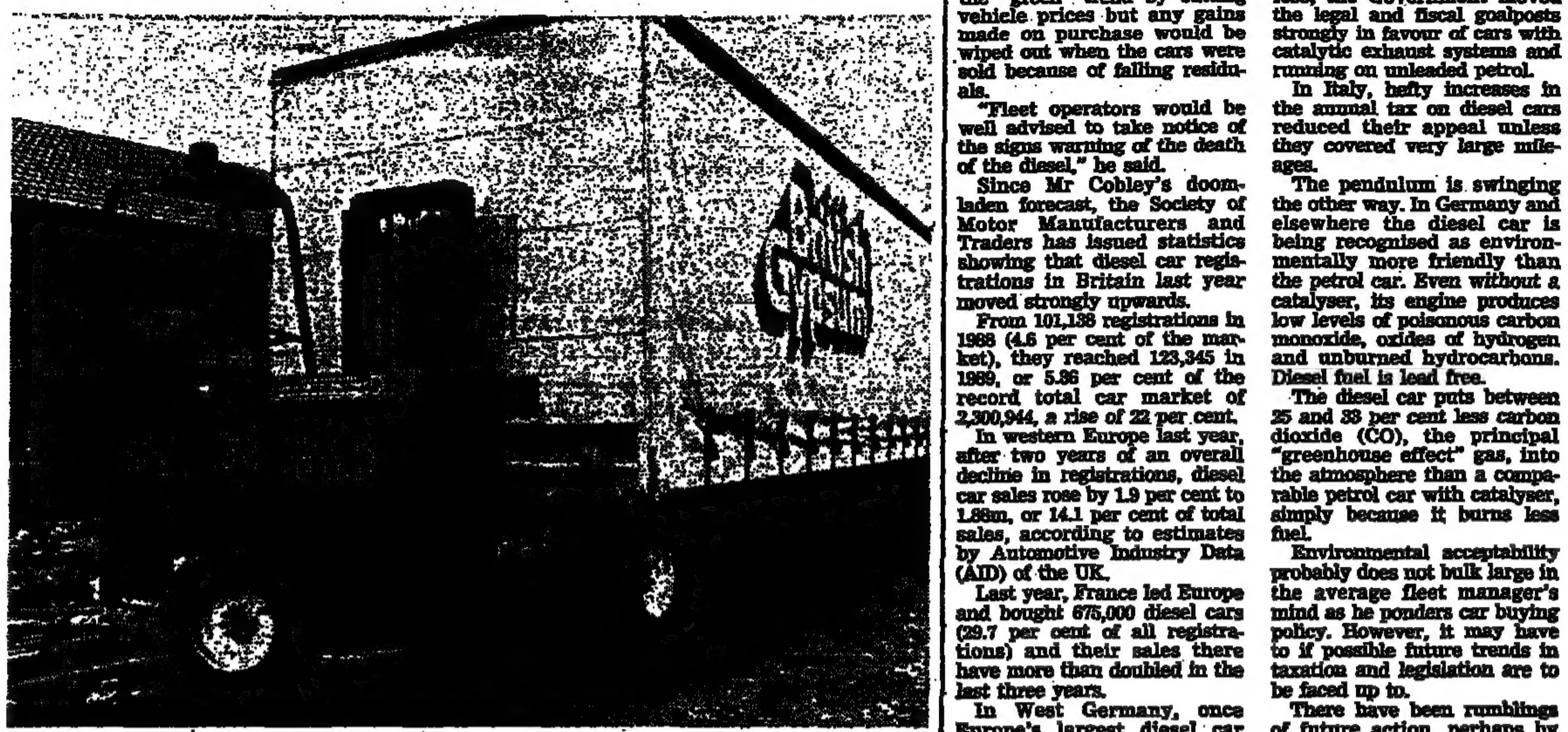
A simple oxidation unit that, unlike a petrol engine's catalyser, will last the life of the car, removes diesel smell from the exhaust.

Mercedes-Benz recently introduced car diesel engines that cut particulate (soot) emissions by 40 per cent as well as reducing fuel consumption and *improving performance.*

Citroën's Car of the Year, the XM, will shortly be in Britain, powered by a turbocharged version of the world's first regular production diesel with three valves per cylinder. Similar clean, high performing engines will be available in the Peugeot 605, due here in late Spring.

The attractions of diesel motoring are popularly held to wax and wane as the price of fuel goes up and down in tune with world spot market prices for gas oil.

In fact, the superior economy of a diesel car compared with a petrol car – it may be up to 30 per cent in favourable conditions – means that even if the fuel is the same price as petrol, the fuel cost per mile is substantially less. When diesel is cheaper at the pump than petrol, that is a bonus.



A truck-mounted forklift allows the driver to load and unload his delivery

FLEET DISTRIBUTION

# Growing use of specialists

ROAD TRAFFIC congestion, increasing emphasis on quality service and the European Community single market are three of the important factors influencing distribution fleet development.

These factors, as well as the growing pressure on manufacturers, suppliers and retailers to achieve maximum efficiency for their distribution activities in order to remain competitive, have encouraged more companies to contract out to third party specialists.

Much of the impetus for that trend originated in the retail sector. Mr Francis Peck, managing director of contract distribution company Exel Logistics Consumer, said that as the retail business consolidated into larger groups over the last decade, so the industry had become more professional and commercial in its approach to the market-place.

**The last few years have seen growing use of centralised warehousing**

One result of that approach was that the retail trade increasingly wanted to concentrate all its best resources on the bits of the business it knew best. It began to realise that the bit it knew least about was distribution, receiving, the storing and the final delivery of goods, said Mr Peck.

The industry was not going to take a quantum leap and do everything at once. The first area to be looked at in that respect was generally the vehicles. The trucks going out of house became the first move in what became the much more general trend to contract out non-core activities.

That move to contract out distribution fleet operations has developed to include many manufacturers which, like the retailers, have increasingly opted to concentrate on their core production activities.

The last few years have seen the growing use of centralised warehousing. Ten years ago, companies tended to have fragmented stockholdings in smaller warehouses all round the country which received deliveries direct from suppliers.

Since then, most have moved to centralise their stockholdings, in regional centres or one national distribution point. Coupled with this move has been the advent of systems offering electronic point of sale *information capture and other* technology developments.

EPOS, in particular, has enabled retailers to see at a glance what their customers are buying and how quickly they need to replenish particular stocks. EPOS and the increasing buying power of the large retail multiples, helped to accelerate a marked change over the last decade from supplier-led distribution chains to demand led systems and the change from the push to the pull which has in turn paved the way for JIT (Just In Time) distribution.

The distribution sector has in recent years seen large changes in the way deliveries are made.

The whole operation is more sophisticated and time sensitive. In the retail sector, for example, the move by stores to keep in-house stockholdings to a minimum and rely on efficient distribution to ensure goods arrive as and when needed has led to the development of tightly scheduled deliveries.

In some cases, supply vehicles are given time windows of as little as half an hour in which they have to make deliveries to a particular store. Similarly, manufacturers moving nearer to Just In Time production methods are increasingly demanding fixed time deliveries of their incoming supplies.

Achieving that level of distribution fleet efficiency, though, is becoming increasingly difficult in many areas, particularly within large cities, because of growing road traffic congestion.

One result could be more moves towards deliveries at night, as predicted by the Freight Transport Association in a recently published report called Out of Hours Deliveries the Way to Avoid Congestion.

The report, based on a survey carried out among the association's members, the trend for more deliveries to be made outside standard working hours (7 am to 5 pm) would continue unless the problems of traffic congestion and delay were resolved soon.

The survey said companies gave four main reasons for delivering out of hours: severe traffic congestion; restrictions on delivery times; the need to meet customer requirements and the need to maximise efficiency and cost effectiveness.

The Moffett Mounty forklift, produced by Moffett Engineering of County Monaghan, Republic of Ireland, may help night-time deliveries. It can be secured to the back of a delivery truck or trailer without causing any loss of load space. It can be carried to the point of delivery, quickly detached by the vehicle driver and used to offload up to two tonnes of goods at a time.

In that way, claims Moffett, companies can overcome the availability and high cost of labour and equipment to handle unloading – one of the biggest problems associated with the development of night-time delivery operations.

The ability to better satisfy those sort of customer requirements fits in with a growing general demand for better quality distribution and delivery service.

In that context, companies using third party distribution fleets are putting increasing pressure on their contractors to attain recognised quality standards such as BS 5750 (ISO 9002).

That point is emphasised by pan European unit load operator IFF (International Ferry Freight), part of the United Transport Group, which was recently awarded those standards after eighteen months of preparatory work.

The importance of that achievement is underlined by the fact that big customers are expected to demand that freight operators meet this international quality standard by the end of 1990. Failure to do so will undoubtedly result in not being considered as a carrier by many important industries, said a spokesman for IFF.

**Manufacturers are demanding fixed time deliveries of their incoming supplies**

Many big industries now span much of Europe. This is likely to result in more and more distribution fleet operations becoming pan European. This year, for example, transport group TNT has announced plans for a large push into the field of general European logistics management with the appointment of Mr Brian Bolam to the newly-created post of general manager TNT contract distribution Europe.

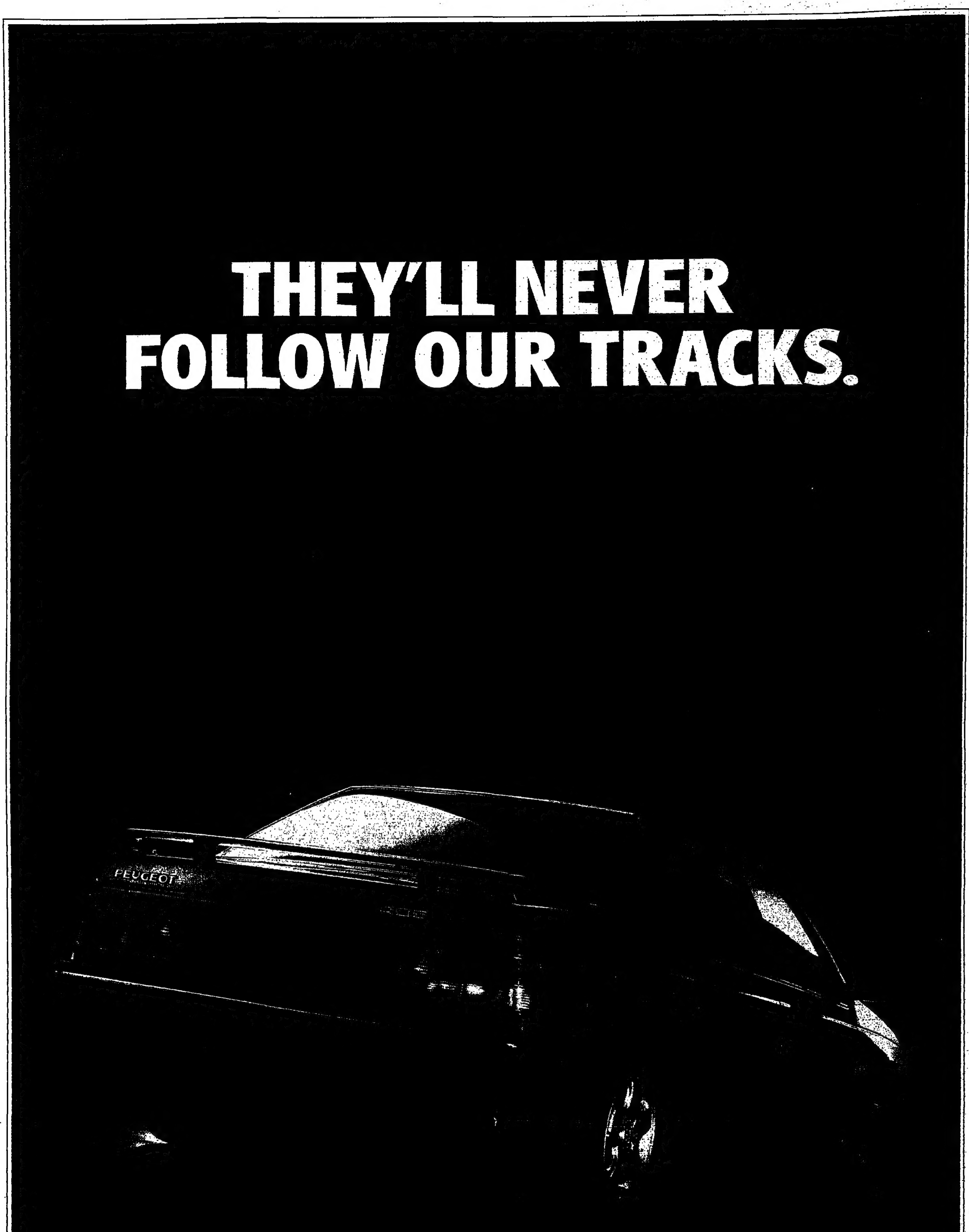
"We are looking at multi location distribution in various countries and in many cases a requirement for a primary distribution system to connect them," he said. Many of the contracts under discussion, he added, would involve TNT working for a customer in more than one country.

Other distribution organisations are likely to follow a similar path and seek synergies from combining European and UK domestic vehicle fleet operations.

Mr Douglas Dunbar, group managing director for distribution/freight company Rockwood Holdings, believes, for example, that there is much to be gained from developing a closer working relationship between the group's UK domestic division, Rockwood Distribution, and forwarding operation Rockwood International Freight.

"We see that particularly in terms of surface TIR movements to continental Europe. RIF spends £4 million a year on third party truckers in the UK and on the Continent. We have a vehicle fleet in Rockwood Distribution which could be better utilised by taking some of that traffic, particularly in the light of 1992 when Europe is due to become a single distribution market," he said.

**Philip Hastings**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